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Program for Promotion of Business Competitiveness and Innovation 2007 - 2013

(Informative part)

Riga
2007

Content

Appendices:

Abbreviations

CIP	-	Competitiveness and Innovation framework Programme
CIS	-	Commonwealth of Independent States
CNE	-	Council of National Economy
CRPC	-	Consumer Rights and Protection Centre
CSMBC	-	Council of small and medium businesses and craft
EC	-	European Commission
EDI	-	Electronic data interchange
ERDF	-	European Regional Development Fund
ESF	-	European Social Fund
etc.	-	et cetera;
EU	-	European Union
EUR	-	euro
FDI	-	Foreign direct investments
GDP	-	Gross Domestic Product
i.e.	-	id est
ICT	-	Information and Communication Technologies
LIDA	-	Latvian Investment and Development Agency
int.al.	-	inter alia
IT	-	Information Technologies
k	-	thousand
LABC	-	Latvian Association of Business Consultants
LGA	-	Latvian Guarantee Agency
LQA	-	Latvian Quality Association
Ls	-	lats
LTC	-	Latvian Technology Centre
Ltd.(SIA)	-	limited liability company
LVS	-	SIA "Latvijas Standarts"
Mill.	-	million
ME	-	Ministry of Economics
MES	-	Ministry of Education and Science
MLBL	-	Mortgage and Land Bank of Latvia
MW	-	Ministry of Welfare
NDPL	-	National Development Plan of Latvia
R&D	-	research and development
SEA	-	State Employment Agency
SME	-	Small and medium enterprises
SRS	-	State Revenue Service
USA	-	United States of America

Appendix 2 includes the explanations for terms used in the program.

Introduction

The economical reforms executed in Latvia and its accession to European Union has ensured the internal and external basic preconditions for further development of national economy and growth of welfare of the society.

Due to rapid economical development within the recent years Latvian economics has currently exceeded the level of Gross Domestic Product, which existed in the country before commencement of economical reforms. But the level of economical and social development in Latvia is still among the lowest ones of the European Union countries. Growth of economics in Latvia has determined also several serious macroeconomical and social problems, solving of which requires further structural changes in Latvian economics.

For provision of further stable development of Latvian economics and constant increase in its competitiveness, the preconditions shall be established for transition from the model of economics based mostly on utilization of low-qualified labour force and production of products of low added value to the model of innovative (knowledge-based) development.

To achieve a larger coordination of Latvian economical policy in this strategically significant direction of policy, within the framework of previously implemented national policy **"National innovation programmes 2003 - 2006", "Development programmes for small and medium businesses of Latvia 2004 - 2006"** and **"Basic formulations for development of Latvian industry"** are planned to be continued by uniting into one - "**Program for Promotion of Business Competitiveness and Innovation 2007 – 2013"** (hereinafter – "Program").

The period of time for implementation of the program allows its successful coordination with events included into Latvian National Development Plan (hereinafter – "LNDP") and options for utilization of structural funds offered by European Union Financial Prospect 2007 – 2013. In the initial period of implementing the program it will be also possible to coordinate with the events for increasing the total competitiveness of European Union within the Lisbon strategy.

1. Relation of the Program to the Priorities of Government and the Ministry and the Approved Documents of Policy

Latvian National Development Plan 2007 – 2013, approved by Regulations of Cabinet of Ministers on 4th of July 2006 No. 564 „Regulations on Latvian National Development Plan 2007 - 2013", and determined as the chief national planning document of the country, sets the strategic goal and defines the priorities for development of knowledge-based national economy. These priorities are based on technological excellence and flexibility of educated

and creative persons and businessmen, and also on the development of science and research.

The implementation of transition to the innovative (knowledge-based) model of Latvian economy is impossible by performance of limited actions in separate field of policy. This transition should be as synergy of goals and actions between government and private sectors.

For implementation of goal set in NDP 2007 – 2013 and to create the competitive economical model of Latvia based on innovative development, the coordination of national implemented policy in branches of promotion of business and innovation by achieving the coordination with processes in branches of education, information and communication technologies, culture and social branches is necessary.

This direction of strategic development of Latvian economy is completely conforming to the goal defined by the Lisbon Council of Europe in March 2000 on developing European Union as the most competitive and dynamic knowledge-based economy by creating of favourable conditions for small and medium businessmen and provision of larger convergence among the member states.

The **Latvian National Lisbon Program 2005 – 2008** approved by Order of Cabinet of Ministers on 19th of October 2005 No. 684 is policy planning document, which determines what Latvia will perform for achieving the goal of medium term period – promotion of national development and employment, and how it will implement the **Integrated basic formulations** approved by Council of Europe in July 2005.

The program highlights five main basic directions of economical policy for attaining Lisbon goals in Latvia:

- Provision of macroeconomical stability;
- Stimulation of knowledge and innovation;
- Establishment of environment favourable and attractive for investments and work;
- Promotion of employment;
- Improvement of education and skills.

The Latvian Export Promotion Program 2005 – 2009 approved by the Order of Cabinet of Ministers on 14th of October 2004 No. 755 "On Latvian Export Promotion Program 2005 – 2009" is orientated towards strengthening the exporting capacity of Latvian businessmen and acquisition of new markets. This program envisions:

- Establishment and development of effective institutional basis for promotion of export;
- Promotion of international competitiveness and professional capacity of Latvian businessmen;
- Provision of support for export marketing and acquisition of new markets;

- Development and provision of financial instruments for export promotion for the Latvian businessmen.

The Basic Formulations for Development of Education 2007 – 2013 approved by the Order of the Cabinet of Ministers on 27th of September 2006 No. 742 „On the Basic Formulations for Development of Education 2007 – 2013" envision:

- Increasing the efficacy of pedagogic process in the stage of primary education;
- Provision of teaching and methodological means corresponding to qualitative acquisition of subjects;
- Improvement of career education for motivated and deliberate acquisition of further education of youth and development of their career;
- Modernisation and increasing the prestige of vocational education system;
- Improvement of competitiveness of higher education;
- Increasing the role of science and research in universities;
- Improvement of learning and study material basis required for acquisition of practical skills corresponding to the labour market and provision of learning process.

The goals of **Basic Formulations for Sustainable Development of Latvia** approved by the Order of the Cabinet of Ministers on 15th of August 2002 No. 436 "On Basic Formulations for Sustainable Development of Latvia" are as follows:

- Establishment of a stable national economy, providing for the needs of society and in the same time attaining that the economical growth rates exceed the rates of pollution of environment and consumption of resources;
- Provision of safe and healthy environment for current and future generations;
- Development of responsible attitude in the society on the natural resources and constant increase in the efficacy of utilization of resources;
- Provision of integration of environmental issues and development of an extensive utilization of environmental policy means in all policies of other branches;
- Provision of market economy mechanisms working for sustainable development.

Basic Formulations for Development of Information Society 2006 – 2013 approved by the Order of the Cabinet of Ministers on 19th of July 2006 No. 542 "On Basic Formulations for Development of Information Society 2006 – 2013" is a medium-term policy planning document elaborated in accordance to the goals of Lisbon strategy, guidelines accepted in European Union, and

initiative of European Union "i2010 – European Information Society for Development and Employment" taking into account the situation and priorities of Latvia. Basic formulations determine a unified policy for development of information society in Latvia, stating the knowledge-based economy and improvement of living standard as the chief goal of the policy with everyone able to use and using the opportunities provided by ICT and the content for reaching this goal.

These basic formulations for reaching this goal envision the performance of several subgoals:

- Each inhabitant of Latvia has the opportunity and skills for using ICT and e-services;
- Rich range and content of services easing the life and allowing a wholesome development are available for inhabitants and businesses;
- Active utilization of ICT for innovations in business by creation of increase in added value.

The **Program for Development of Electronic Administration 2005 – 2009** approved by the Order of the Cabinet of Ministers on 29th of September 2005 No. 623 "On Program for Development of Electronic Administration 2005 – 2009" has its goals and actions directed towards:

- Improvement of quality and availability of government administration services and decrease in administrative and financial pressure on the society;
- Establishment of effective and economical state administration;
- Establishment of open and democratic administration, to whom the inhabitants rely and in whose work they participate.

For relation with political documents of European Commission the new **Competitiveness and Innovation framework Programme 2007 – 2013** has to be taken into account, it became valid on 29th of November 2006. The Competitiveness and Innovation framework Programme (2007 - 2013) (hereinafter – „CIP") will unite 9 specific Community support programs into a common framework, which is of material importance for provision of European productivity, innovative capacity and sustainable development, in the same time taking into account the respective environment aspects. CIP has been established for adjustment to the framework of the Financial Prospect (2007 - 2013) and it will include specific activities in the branches of business, SME, industrial competitiveness, innovation, information and communications Technologies, environment Technologies and intelligent energy, which were previously regulated by several other legislative acts of the Council. Thus the CIP will promote the competitiveness of the Community and innovation capacity in knowledge-based society, which is developing on the basis of balanced economical growth and competitive social market economy with protection of high level and improved environment. It should be mentioned, that CIP is not related to the activities of science and technological development as the Article

166 of EC Treaty provides. CIP includes different goals and target groups; the structure of the program envisions to provide the visibility of each individual component, therefore **three separate subprogrammes or pillars are divided within the CIP:**

1. Business and innovation program.
2. Support program for policy of information and communication technologies.
3. Intelligent energies – European program.

Also the **European Charter of Small Enterprises** shall be mentioned, which was joined by Latvia in 2002 and in accordance to which all member states of the Charter have undertaken to work and establish the support policy friendly for SME.

Also the initiative of EC to implement the **principle *"at first the smallest ones should be thought about"*** in the future should be taken into account in entire SME policy, and the legislative acts and their administration should be simplified, stating the necessity of simplification measures and attracting the attention to the fact that the regulations have to be proportional to the attainable goals, taking into account the social environment and economical aspects.

The growth in competitiveness of Latvian economy and its businessmen is material not only for convergence of economical development levels among the member states of EU, but it is also a material precondition for maintaining the level of economical and social welfare, maintenance of the market niche of Latvian businessmen and its expansion in the conditions of global competition.

Exactly the further years will be a determinative period of time for successful transition of Latvian economy to the model of innovative development. The options of the economical model based on dynamism of period of reform, expansion of internal market, and extensive development, can be exhausted in average term of conditions of a rapid global competition, creating the decline in development rates and competitiveness. Establishment of competitive Latvian economical model based on innovative development is the main precondition for provision a sustainable development for the national economy.

In declaration of the actions planned by the Cabinet of Ministers the education, knowledge and competitiveness are defined as the ground for economical and social development of Latvia, determining certain goals in the branches of education, science, information and communication technologies, and innovation.

Qualitative, available and competitive education is the main precondition for development of knowledgeable, creative and determined personality and increase in the total human capital of Latvia. The role of scientific and all kinds of creative activities in the chosen development model of Latvia is emphasized in declaration. In the Government declaration the knowledge-based development policy is planned to be implemented with particular support for branches of

information services, scientific activities, innovation, and transfer of technologies.

2. Description of the Current Situation

2.1. Business, including the SME branch

Due to the rapid economical growth the Gross Domestic Product of Latvia has increased by 48% from 2000 to 2005 reaching the level of pre-reform period, the level of 1990. It shows that the Latvian economy in the middle of the first decade of 21st century has completely restored its potential on the new grounds of market economy.

But several macroeconomical problems of Latvia have become more intense in the recent years – inflation, deficit of current account of balance of payments, the lack of labour force becomes more acute, particularly the lack of qualified specialists in several branches.

Within the recent five years **the number of economically active businessmen** per 1000 inhabitants has increased from 17 to 25. But the total economical activity is described also by other participants of the market sector and according to the practice of EU institutions, which includes the performers of individual work (self-employed persons), farms and fisheries etc. in the calculation of such rate describing the economical activity, the rates of Latvia in 2004 – 44 and in 2005 – 47 performers of economical activities per 1000 inhabitants reach and correspond to the average level of EU.

The stable increase in the number of newly established businesses within the recent years shows the improvement of the starting conditions of the business and efficacy of activities performed for provision of business development promotion. The statistics available in the informative system of limited liability company "Lursoft", where the Register of Enterprises records the information on the registered objects, shows that 13 173 newly established businessmen and businesses were registered in 2006 in total, which is the largest number of newly registered business entities during previous 12 years, and it is for 19.43% more than in 2005 (10 613); however maintenance of the capabilities for further operation of these businesses and their growth opportunities is important. Promotion of establishment/registration of newly established businesses is not sufficient for provision of sustainable development. For provision of growth in competitiveness these newly established businesses have to be viable. But the statistics shows that the total number of businesses is growing approximately for a half of the number of newly established business, and it is indirectly showing problems in their vital capacity.

Also clear regional differences can be found in the number of businesses, and they do not decrease – they even grow. In Riga and Riga region, where 52.2% of all businesses of Latvia are registered, in 2006 70.7% of all new businesses registered in the country were established. By the 1st of January 2007 the businesses of Riga and Riga districts has generally attracted also 87.8% (or

1.4 billion lats) from the direct foreign investments to the core capitals of the companies, 77.6% of the core capitals of all businesses registered in Latvia are also concentrated here (4.43 billion lats).

From the point of view of the increase in newly established businesses and comparing it to 2005, the regions can be divided into three groups:

- Regions with rapid increase in the number of newly established businesses, it includes also Riga and Riga region (increase for 24.7% in 2006 comparing to 2005, 9519 new businesses in total). But particularly rapidly, i.e., by 90.7% it has increased in Jēkabpils and Jēkabpils region, Ogre region (52.3%), Daugavpils region (22.6%), Aizkraukle (8.6%) region, and in the cities and regions where the industry and/or infrastructure have been also previously developed (roads, educated labour force, etc.) - Jelgava (40.4%), Bauska (37.9%), Rēzekne (26.3%), Liepāja (23.3%), Valmiera (17,6%).
- The regions, where a small decrease in the number of newly established businesses was observed against 2005, are geographically located around the "central axis" of Latvia (Rīga-Jelgava). The activity has not increased in regions of Tukums, Limbaži, Dobele, Talsi.
- Regions and cities, where the rates of increase in the number of newly established businesses can be valued as negative comparing to 2005. Considerable decrease in the number of newly established businesses can be observed almost in all regions of Eastern frontiers, except for Alūksne. For example, in Krāslava region the businesses were established by 29% more than in 2005, also in other regions negative growth can be observed: Ludza (-17.4%), Gulbene (-14.9%), Balvi (-14.3%), Valka (-13.3%).

In 2004 Riga region had 41 economically active businessmen and businesses per 1000 inhabitants, followed by Pierīga (17), Kurzeme planning region (15), Vidzeme planning region (14), Zemgale planning region (12) and Latgale planning region (11).

In Latvia the **sector of small and medium businesses** currently employs approximately 70% of the private sector employees; these businesses generate approximately 63% of gross domestic product.

The country currently has approximately 55.5 thousand of economically active businessmen and businesses corresponding to the category of small and medium businesses. 78% of the businesses of this category are microbusinesses, 18% - small and 4% - medium businesses.

The goals of Program for Development of Small and Medium Businesses of Latvia 2004 – 2006 were promotion of improvement of business environment and the increase in the number of business. Within the program the actions were commenced and implemented for improvement of business environment, promotion of availability of funds for businesses, promotion of competitiveness of businesses.

The situation in the branch of small and medium businesses is the indicator for development of Latvian business environment, because exactly this sector is the most sensitive to the changes in economical and normative environment and policy implemented by the government institutions. The condition of the sector shows, to what extent the economical and tax policy of the country is favourable or disturbing, in what state is the capital market, level of infrastructure, and education system development, how effective is the support policy of the country, are the legislative acts for business arranged and stable.

The annual ***Program for improving the business environment*** applicable since 1999 is one of the most important instruments for improvement of the business environment in Latvia. It is a ministry-intermediate policy planning document, where the included problems and solutions are identified by cooperation with organisations representing the businesses.

The program includes the changes in the legislative acts, review and simplification of the procedures, improvement of coordination among different institutions, preparing and publishing the information, and training for employees of government institutions.

In the research of World Bank[1] Latvia was listed among the 12 most active reformers of the business environment in 2006, by the conditions for running business Latvia was in 24th position in the world (among 175 countries) (Lithuania - 16., Estonia - 17.).

Parallel to the activities for improvement of business environment the **support policy and the operation of institutions of small and medium businesses** are constantly being improved**:**

- Since 2000 the crediting program for development of SME is being introduced and implemented with the aid of Mortgage and Land Bank of Latvia;
- **Latvian Guarantee Agency** promotes the availability of credit resources for the businesses. In 2006 three risk capital funds were established with support of the agency by the co-funding from national budget and European structural funds. Their goal is the support for development of new products or technologies in small and medium businesses with high potential of development.
- Since 2006 the **Crediting Program for Entrepreneurs** is being implemented, it is co-funded from the funds of national and European structural funds. The goal of this program is promotion of provision of funding for development of business in its early stage (availability of so-called seed capital, options to receive the loans with relieved terms) and availability of funds as a risk capital.

[1] Research of World Bank „Doing Business in 2007: How To Reform";
http://www.doingbusiness.org/ExploreEconomies/Default.aspx?economyid=108
EM_260607_Komercdarb_konkuretsp_un_inovac_veic_pr_2007-2013_EN.doc; Program for Promotion of Business Competitiveness and Innovation 2007 - 2013

- The **training for businessmen and entrepreneurs** about actual issues is being implemented.

Although in the previous years an active and successful policy has been implemented for improvement of business environment and support for SME, **the development of this sector is still delayed in Latvia by several material problems**:

- **Lack of human resources and their qualification**, which constitutes problems in selection of personnel, implementation of new business management methods and innovations, and utilization of the respective support instruments of the state and EU sector; 15% of the businesses questioned within the annual report of World Bank „World Development Report" have recognized lack of qualified labour force as a material factor influencing the business environment. The existing training programs for employees among businessmen and experts are valued as ineffective and as encouraging the individuals to become employers and employees insufficiently.
- **Insufficient capacity and intensity of the support policy for the sector** implemented by the government sector;
- **Unavailability of funding**, because the current guarantee and investment funds are not sufficiently developed yet;
- **Insufficiently intense informative relation** about the support instruments of Latvia and EU for development of SME sector;
- **Complicated administrative environment,** which would be the precondition for successful functioning of competition market system. The estimates show that after restoration of independence 250 new laws and 350 normative documents on average were annually adopted. It has certainly caused problems for SME, who have to meet the incommensurately high expenditures. Within the recent two years almost 1/3 (30%) of Latvian businesses have asked the government institutions to provide explanations on application of legislative acts. 36% of businessmen do not agree with the assertion that the availability of the information about changes in legislative acts is good.
- **Inflexible tax system** and its interpretation. Although the tax system of Latvia could be described as comparatively favourable and the rates of direct taxes are among the lowest ones in the member states of EU, the businessmen of Latvia specify that the tax laws are mostly hard to understand and execute without help of tax consultant, sometimes the legislative norms contradict and their interpretations is not always unequivocal;
- **Insufficient informative support**. Usually the cost level effect is being associated with the availability of the information – smaller businesses has larger difficulties to access the information comparing to the large businesses (it is particularly important in branches related to internal and external business regulative norms and export markets). For

example, only 12% of all Latvian businesses use Internet for electronic submission of documents to different government institutions (SRS, customs, etc.). But only 8% of businesses have utilized the option to submit the reports for Central Statistics organization electronically, and 5% have utilized the option to submit tax declaration to SRS electronically;

- **Incomplete territorial planning**. Lack of territorial planning and zonings of cities and other inhabited areas increase the risks and costs of businesses; non-balanced availability of infrastructure among Riga and other regions of the country, insufficiently developed public services networks outside Riga.

2.2. Innovation.

The report of European Innovation fruitful indices published by European Commission shows that the total innovation index of Latvia has not considerably changed within the recent years, and in 2005 Latvia was the 30th of the 33 inspected countries of EU and its associated countries[2]. This shows the material backwardness of Latvian national innovation system comparing to the average level of EU countries, especially in the field of intellectual property, export of high technologies and introduction of new products into the market.

Latvia currently has one of the lowest volumes of national and private sector investments in research and development in the EU. It is one of the main factors delaying the development of applied research, commercialization of results of the research and development of innovative business.

The goal of the National Innovation Program 2003 – 2006 was the promotion of the increase in the capacity of national innovation. Within the program several actions promoting the innovative activity were commenced, which include the establishment of environment favourable to innovative activities, elaboration of support mechanisms and their implementation for introduction of innovative solutions in business and encouraging of cooperation among research and industrial sectors. All required financial funds were not provided for implementation of activities of the program, and it significantly limited the options to commence the introducing of such new support events, which require large financial funding (development of operation of innovation centres and business incubators, establishment of centres of competence).

Only 0.42% of GDP (in EU states – 1.93% on average) was the total funding in Latvia in 2004, but in 2005 it was already 0.57% of GDP. National funding for research was 0.23% of GDP, in the same time the existing system for funding the research works did not operate as catalyst, which would attract the investments from private sector to the research field. In 2004 the investments

[2] European Innovation Progress Report 2006, http://trendchart.cordis.lu/ EM_260607_Komercdarb_konkuretsp_un_inovac_veic_pr_2007-2013_EN.doc; Program for Promotion of Business Competitiveness and Innovation 2007 - 2013

from the private sector was only 0.19% of GDP (in EU states – 0.73% on average).

In 2003 – 2005 only 18% of all businesses in Latvia were innovative, but in the same time in EU this rate is 45% on average. In 2004 the turnover of businesses active in the field of innovation constituted 42% of the total turnover of businesses in Latvia.

This shows that the technological innovation in Latvia is taking place more widely exactly in the large businesses– 54% of the total number of these businesses. Among small businesses only 14% were innovatively active, in group of medium businesses – 27% businesses[3].

Within the recent years several activities were performed within the Latvian National Innovation Program for improvement of situation in this field. The projects are being implemented for promotion of development of innovative business and applied research infrastructure.

The support program for establishment of **technology transfer contact points** in universities has been commenced in 2005 for improvement of transfer system of technologies.

In 2006 the **Council for Intellectual Property** has been established; its task is the coordination and promotion of the operation of Latvian government institutions in the field of intellectual property and protection of its rights.

The **Technology Agency** has been established for promotion of investments of the private sector for applied research, the transfer of technologies and ensuring the implementation of results of researches into production; it is integrated into LIDA as a separate structural unit.

Although the decision of Council of Europe provides that by 2010 the volume of contribution into research and development is planned to be increased to 3% of GDP, currently EU invests only 1.9% of its GDP in research and development comparing to 2.7% in the USA and 3% in Japan. 80% of this difference is caused by insufficient investments from private sector into research and development (currently one American SME provides seven times on average more for research and development comparing to one European SME).

Analysing the human resources involved in research and development (hereinafter – R&D), only 0.8% of employees in Latvia are involved in R&D, and approximately 60% of them are working in the sector of higher education and only 14% are working in private sector. The proportion of employees in EU science exceeds 1.4%, where almost half (49-53%) is employed in private sector, and approximately 40% - in sector of higher education.

A situation has developed in Latvia, where businessmen are reluctant to employ scientific workers because of the opinion that scientific worker from

[3] CSP: 3.inovāciju apsekojums Latvijā 2005
EM_260607_Komercdarb_konkuretsp_un_inovac_veic_pr_2007-2013_EN.doc; Program for Promotion of Business Competitiveness and Innovation 2007 - 2013

universities and scientific institutes has only theoretical knowledge, which do not correspond to the current requirements.

To promote the development of innovative businesses the attraction of highly qualified specialists to SME is necessary to be supported. The public funding will have a motivating nature, which would encourage the businessmen to invest into creation of new work places for highly qualified specialists, and it will also encourage the businessmen to get involved into cooperation projects with universities and scientific institutes.

Lack of highly qualified and motivated employees limits the innovation options for the businesses – the businesses are short of educated and interested employees, who could perform not only some certain tasks but also devote their time to increasing the productivity, acquisition and introduction of new technologies, and elaboration of new products and services.

Innovative development of market infrastructure in the era of *information society* works as catalyst for promoting the optimization of competitiveness and business processes, which is motivating also the participants of the market for innovative development.

Development of e-commerce **is one of such innovative directions of development of the market infrastructure**.

Experience of EU member states shows that e-commerce can be assumed as the first stage for the change of stress from promotion of general business to the technological re-structuring of commerce (e-business), emphasizing the including of applications and innovations of ICT into commercial processes.

In Latvia e-commerce currently develops at comparatively slow rates – both in sectors of commerce and private consumption. In 2005 3.8% of Latvian businessmen made their purchases in Internet, while European Union had only 25% on average of such businessmen, but only 0.8% of businessmen received their orders using the options provided in Internet (12% on average in EU). In the last three months of 2006 5% of inhabitants of Latvia[4] have made their purchases on the Internet, but in the European Union – 21% on average[5].

The data of the research ***on development dynamics of e-commerce in Latvia***[6] performed by Latvian Ministry of Economics show that by the beginning of 2006 the opportunities provided by applications of e-commerce are mostly used only by businesses in the statistical region of Riga – approximately 90% of businesses using the applications of e-commerce and also larger businesses of e-commerce beginning the expansion of their operation also in other regions of Latvia. Businesses of e-commerce specify in the research that the main barriers delaying the development of e-commerce in Latvia are the following ones:

- Limited availability of Internet;

[4] CSO: On Latvian Information Society 2006

[5] Eurostat database: http://epp.eurostat.ec.europa.eu

[6] http://www.em.gov.lv/em/images/modules/items/item_file_12314_2005.doc

- Distrust of society to transactions in e-environment, which is related to lack of experience and prejudice;
- Internal managerial or technical problems of businesses.

Generally analysing the situation in Latvia and comparing it to development trends of EU in the field of e-commerce, it can be concluded that other member states of EU are one step forward in development of e-commerce, which has a direct correlation with rates of development of e-business. The European e-business readiness index 2005[7] determines comparatively slow utilization of information and communication technologies and transfer of ICT applications in processes of business.

Main problems:

- **Lack of understanding** about the role of innovation in development of business, increasing the competitiveness of the country and social welfare;
- **Low contribution of private investments into research and development;**
- **Insufficiently developed specialized infrastructure promoting the innovative activities** (incubators of innovations, centres of competence);
- **Insufficient access to financial resources, especially for starting and risk capital;**
- **Insufficient cooperation between education, research and industrial sectors;**
- **Small number of patents;**
- **Low proportion of innovative businesses;**
- Poorly developed **mutual cooperation among businesses** both at the local and international level;
- Low proportion of businesses utilizing the options provided by ICT for integration of e-commerce applications into processes of business;
- Distrust of society for purchases in e-environment, which is related to lack of experience and prejudice.

2.3. Industry.

Development of industry and especially its increase in productivity is one of the key preconditions for balanced overall development of national economy, and also an important factor for increasing the potential of Latvian export. „

From 2001 to 2006 a stable development was observed in industry, but it was behind the average development rate of national economy. As a result in

[7] European Commission, DG Joint Research Centre, Institute for the protection and Security of the Citizen (IPSC)
EM_260607_Komercdarb_konkuretsp_un_inovac_veic_pr_2007-2013_EN.doc; Program for Promotion of Business Competitiveness and Innovation 2007 - 2013

this period the proportion of industry in total added value of industries of Latvia was decreased from 13.7% in 2000 to 11.8% in 2006. Proportion of industry in EU countries is approximately 18-22% (see more detailed information about the structure of national economy in Appendix 3 "Review on the Situation in Latvian National Economy").

Although from 2001 to 2005 (8.6%) the annual growth rates of productivity in industry exceeded the average productivity growth in national economy, its level in this field still constitutes 4/5 of the average productivity level in national economy.

Businesses of several industrial branches are mostly oriented towards execution of orders from foreign business and not developing their own brands and not investing in elaboration of new products. Therefore considerable opportunities exist for increasing the total added value of industrial branches. Improvement and development of design of production is very important for realization of such plans, because a poor relation is observed between the sectors of professional design and industry.

Structure of export of Latvian commodities have not much changed within the recent ten years, and currently the products of the three branches – timber products, metal and textile industry, are still comprising almost half of the overall export. But the proportion of mechanisms and mechanical devices, optical devices, vehicles and other production of engineering industry is still only 14% in the export structure (proportion of these branches constituted 15% in 1995).

Proportion of high technology production in the export of Latvian commodities comprised only 5.2% in 2005. In 2005 the proportion of high technology branches formed only 5.2% in output of production.

From 2001 to 2005 the **dynamics of investments** in branches of production of commodities was almost one and a half times more rapid than in sphere of services. Such development trends determined that the part of branches producing commodities gradually increased in the structure of investments. But in 2006 the volumes of investments increased rapidly in the service branches, while decreasing in industry.

The operative data describing the investments in 2006 also show that the interest of investors has decreased in branches of high technologies, where the investments were previously (2001 - 2005) growing more rapidly than in other industrial branches; and the investments have grown in the branches of low technologies.

1. Although the industrial environment of Latvia is currently favourable for **development of clusters**[8] (as already mentioned), the real course of developing clusters is dropping behind, more active coordination of government and business policy is also necessary in this field. Currently, only several

[8] See research published by *Europe Innova* in November 2006
EM_260607_Komercdarb_konkuretsp_un_inovac_veic_pr_2007-2013_EN.doc; Program for Promotion of Business Competitiveness and Innovation 2007 - 2013

clusters of branches can be considered in Latvia, some of them – in industry-timber production sector, the clusters of information systems, tourism and biotechnologies are developing in other branches.

2. Development of clusters would form an innovatively promoting environment for transfer of knowledge from local scientific institutions (or foreign countries) to the sector of production, it would also increase the demand of the branch for new technologies (innovations), and it would allow concentration of activities of national economical policy in a certain segment of the branch.

Main problems of industrial development and productivity:

- Decrease of investments into industry, in contrary to their increase in branches of services,
- Insufficiently rapid implementation of modern technologies;
- Slow course of establishment of clusters;
- Lack of qualified labour;
- Education system inadequate to the needs of branches;
- Insufficient information and support for execution of requirements of protection of environment and labour safety, and for implementation and certification of quality and environment management systems.

3. Goals and subgoals of the program

Main goals of the program:

- Provision of favourable conditions for development of business in entire territory of Latvia to increase the competitiveness of businesses, particularly SME, establishment and development of new businesses, and to decrease the negative socially economical differences in the territories of the country;
- Promotion of improvement in capacity and efficacy of National innovation system by establishment of regulatory, financial and informative environment favourable to innovative activities;
- Achievement of material increase of competitiveness and productivity in the industry by promotion of volume of production of products with high added value and increase in proportion of high technology products in production and export structure by expanding the utilization of innovative technologies and progressive management methods in all branches of industry.

These goals are planned to be attained by implementation of the following directions of activity:

- Establishment of favourable business environment, reduction of administrative obstructions and barriers;
- Provision of availability of financial support services/ instruments both for the current businesses and the new entrepreneurs;

- Promotion of emergence and development of new business initiatives and ensuring the increase in competitiveness of the existing businesses in Latvia, European Union and external markets;
- Promotion of development of business in the territories of the country, which are poorly developed;
- Promotion of common performance of applied researches by higher education and science institutions and businesses;
- Promotion of transfer of knowledge and commercialization;
- Promotion of introduction of innovative solutions in business;
- Provision of demand for highly qualified specialists and improvement of materially technical basis of knowledge.

4. Planned results of the policy of the program and results of the actions

	Fact		Rates of attainment by years		
	2005	2006	2007	2009	2013
Increase in production volumes, growth in GDP (2005 = 100)					
Entire national economy	100	111,9	122,0	142,3	193,6
Manufacturing industry	100	106,2	111,5	130,1	187,0
Increase in productivity (2005=100)					
Entire national economy	100	106,7	112,9	127,8	170,5
Manufacturing industry	100	107,8	114,9	135,4	191,8
Increase in employment, changes in the number of employed persons (2005 = 100)					
Entire national economy	100	104,9	108,0	111,3	113,6
Manufacturing industry	100	98,5	97,0	96,1	97,5
Improved business environment, facilitated growth in the number of economically active businesses (number per 1000 inhabitants)					
Entire national economy	24	25*	27	29	33
Increased number of innovative businesses (%)					
Manufacturing industry	18**	22**	28	35	40

* Provisional data
** Evaluation of Ministry of Economics

5. Performance indices for attaining the results of the policy of the program and results of actions

Performance indices of the program, to attain the indices of the operation of the program and the indices of policy are specified for each event in the first appendix (see Appendix 1).

6. Main tasks for attaining the results of the program

1. ***For promotion of business competitiveness:***

- Creation of favourable institutional environment for commencement and performance of business (int.al., regular valuation of impact of legislative acts to the business environment);
- Promotion of qualitative development of human resources and their attraction to businesses;
- Promotion of access to funding, particularly for SME within the national support programs, and for attraction of special programs of EU – both for existing and new businesses.
- Development of the spirit and skills of a businessman already from the level of primary school, provision of the options for acquisition of the necessary skills for successful commencement of business;
- Identification and utilization of world's best practice in Latvia for promotion of business.

For development of innovations

- Stimulation of knowledge and innovations by increasing of the government contributions and advancing the contributions of private sector into scientific work and development;
- Promotion of transfer of knowledge and technologies in production;
- Increase in the capacity of the innovation by creation of institutional environment favourable for innovative activities; promotion of cooperation of science, education and private sector;
- Support for elaboration of new products and technologies, including the advancement of understanding of businessmen about the intellectual property and its protection;
- Promotion of growth in the proportion of businessmen, which utilize the e-commerce applications in processes of business.

For development of industry

- Promotion of absorption of modern technologies, elaboration of new technologies and products and their implementation into production,
- On the basis of innovative development of the branch and its technological modernisation, to achieve the increase in the quality and novelty of industrial goods and support the introduction of international standards;
- Achievement of increase in technological excellence and flexibility in industrial businesses, promotion of transfer of knowledge by utilization of absorption and diffusion for increase in the competitiveness of the businesses;

- Improve the development of cluster by promotion of mutual cooperation among the businesses, cooperation with the education, science and research and other involved institutions, focused elaboration of strategies of clusters and their implementation, solving the specific needs of the industrial branches, int.al., the development of industrial design;
- Utilize the options of EU market more completely and also the policy implemented by EU institutions and options provided by financial instruments for restructuring the industrial sector and increasing the competitiveness. Acquisition of the best practice of other EU states and its implementation;
- Promotion of the attraction of foreign direct investments (FDI) by promotion of attraction of such investments, which are source of new technologies, innovations and experience transfer, by increase in the added value of the product. Particular promotion of attraction of FDI in knowledge-intense and high technology service branches;
- Promotion of the export potential if the industrial businesses and acquisition of external markets by promotion of external marketing activities of businesses and integration into global delivery chains.

The implementation of the program will be facilitated by solving of the following tasks in the related fields:

- Development of human capital, especially the development of vocational education system and its correspondence to the development strategy for businesses, training of specialists in engineering science field, development of lifelong education, which would ensure flexible options for re-qualification.

- Development of energy market, which would provide safe sources of energy for business from diversified suppliers by creation of an option for competition of prices and suppliers in this field. Implementation of effective energy-saving and power efficiency events into businesses.

- Improvement of transport infrastructure, which will provide an option to receive the raw materials quickly and without hindrance and to deliver the production to all sales markets. Successful development of transport (transit) system will increase the demand for specialized production of industrial branches in the fields related to transit.

- Development of market infrastructure and e-commerce, which would promote the innovative development of participants in the market, because e-commerce promotes the technological restructuring of business and introduction of innovations into business.

7. Schedule for Performance of tasks

Realization of the subgoals of the program is particularly reflected in the schedule of events enclosed to Appendix 1, which specifies the following:

- Main operational directions for Program for Promotion of Business Competitiveness and Innovation;
- Result of activities and the performance indices;
- Term for performance;
- Funding required for performance of events;
- Responsible institutions.

8. Planning of provided and additionally required funds corresponding to the expenditures

The events determined in the strategy for performance of the program in 2007 are financed within the budget of Ministry of Economics and other involved ministries.

From 2008 to 2013 the plan of events includes the programs c-funded by EU Structural funds, activities planned within the budget of Ministry of Economics and other ministries, and the additionally required budget. The programs of Structural funds of European Union are provided for period of time since 2008, because, although their implementation is commenced in 2007, the actual absorption of funds will begin in 2008. Additionally required funding for implementation of activities of the program will be requested within the request of the current annual budget.

9. Institutions responsible for performance of tasks

Ministry of Economics performs the management, coordination and evaluation of the implementation of the program. The respective executive institution is responsible for implementation of each certain action and evaluation of its efficacy.

Ministry of Economics may propose the over-review of the Program and introduce amendments in it as necessary.

10. Order of provision and evaluation of review

Ministry of Economics annually (by the 1st of June) shall elaborate and submit an informative report to the Cabinet of Ministers on the results of performance of the program in the previous year.

Minister of Economics

J.Strods

04.10.2010 11:50
5563
Fogele
Tel..: 7013111
E-mail: Agnese.Fogele@em.gov.lv

Appendix 1

To the Program for
Promotion of Business Competitiveness
and Innovation
2007 – 2013

Implementation strategy for Program for Promotion of Business Competitiveness and Innovation 2007 – 2013

No.	Main operational directions of the Program for Promotion of Business Competitiveness and Innovation	Result of the activities and the performance indices	Term for performance	Funding (Ls) [9]	Responsible institutions
1. Improvement of business environment					
1.1.	Constant analysis of the status and development of business sector; analysis and review of legislation, support policy and other impact regulating the business environment and related to business; suggestions for promotion of its development and introduction of events and activities corresponding to them.	Studied and evaluated situation in the respective field, elaborated suggestions for improvement of situation.	Annually.	Within the budget of ME.	ME
1.2.	Elaboration of annual "Plan of events for improving the business	Studied and identified factors stopping the development of business	Annually.	Within the budget of ME / LIDA.	ME / LIDA

[9] the specified available funding in 2007; available funding for 2008 – 2013 is specified indiciatively

	environment".	environment. Determined responsible institutions for prevention of imperfections.			
1.3.	Implementation of questionnaires of businessmen on administrative and regulative expenditures, and performance of researches on administrative and regulative expenditures in 2007, 2009, 2011 and 2013.	Elaborated suggestions for the annual "Plans for events for improving the business environment" of the recommendations resulting from the researches.	2007 2009 2011 2013	**2007 – 0.035 mill. Ls;** **2009 – 0.035 mill. Ls;** **2011 – 0.035 mill. Ls;** **2013 – 0.035 mill. Ls.**	ME / LIDA
1.4.	Performance of pilot projects of standard expenditures model, int.al., sociological questionnaires of representatives of the branches, processing of results, involvement of an expert into analysis of laws and regulations and elaboration of suggestions for amendments in the laws and regulations in 2007, 2008 and 2009.	Elaborated model for evaluation of business costs and the pilot projects for model of simplifying the barriers. Elaborated suggestions for amendments in laws and regulations with the aim to simplify the administrative requirements.	2007 2008 2009	**2007 – 0.081 mill. Ls.** **2008 – 0.09 mill. Ls;** **2009 – 0.09 mill. Ls.**	ME
1.5.	Organization of business conference of the most material conclusions of	The representatives of businessmen and governmental organizations have the option to get	2007 2008 2009	**2007 – 0.025 mill. Ls**. **2008 – 0.025 mill. Ls**; **2009 –**	ME

	the pilot projects for improvement of business environment and decreasing the administrative barriers for 2007, 2008 and 2009.	acquainted to the results of researches and discuss the events that have to be performed.		**0.025 mill. Ls**.	
1.6.	Research on improvement of the system for evaluation of conformity	Performed analysis on the conformity of the Latvian system for evaluation of conformity to the normative regulation of EU and elaborated suggestions for simplification of the system by decrease in administrative barriers for businesses.	2007	**2007 – 0.02 mill. Ls**	ME
1.7.	Provision of secretariat functions of the Council of National Economy (CNE) and Council of Small and Medium Businesses and Craft (CSMBC). Provision of successful course of the high level meeting of Latvian government and Council of Foreign Investors in Latvia.	Provided and promoted constant and effective dialogue between the national institutions and private sector.	Annually.	Within the budget of ME / LIDA.	ME / LIDA
					In total: 0,50 mill. Ls
2. Promotion of availability of finances					

2.1.	Provision of loans for entrepreneurs within the lending program for entrepreneurs co-financed by ERDF.	Number of provided loans – on 1st of January 2007- 3.4 mill. Ls; on 1st of January 2008 – 14.3 mill. Ls; on August 2008 (end of the term of program) - 20.6 mill. Ls. Within the program 200 entrepreneurship projects will be supported.	March 2006 – August 2008	2006 – 5.15 mill. Ls from national budget and 5.15 mill. Ls from MLBL resources. 2007 – 5.15 mill. Ls from national budget and 5.15 mill. Ls from MLBL resources. **Total funding of the program until August 2008 comprises 20.60 mill. Ls.**	MLBL
2.2.	2.2.1. Relieved access for SME to the risk capital, promoted risk capital investments for SME.	2007 – 25 risk capital investments performed. 2008 – 30 risk capital investments performed.	2007 2008	2007 – 9.30 mill. Ls 2008 – 0.98 mill. Ls **Total funding of the program until August 2008 comprises 10.28 mill. Ls** (75% - ERDF funds, 25% national budget).	LGA
	2.2.2. Relieved access for SME to the risk capital, promoted risk capital investments for SME.	2008 - 2013 Indicatively 150 risk capital investments performed.	2007 - 2013	2007- 5.3 mill. Ls 2008- 5.7 mill. Ls 2009 – 6 mill. Ls 2010 – 6.54 mill. Ls 2011 – 6.95 mill. Ls 2012 – 7.37 mill. Ls 2013 – 7.82	LGA

				mill. Ls **Total funding of the program comprises 45.68 mill. Ls** (75% - ERDF funds, 25% national budget).	
2.3.	2.3.1. Development of guarantee system by provision of improvement of credit and leasing guarantee support mechanism by elaboration of portfolio guarantee mechanism.	In 2007 guarantees were provided in extent of 5.6 mill. Ls. In 2008 guarantees were provided in extent of 6.1 mill. Ls.	2007 2008	2007 – 3.60 mill. Ls **The total funding for the program by the August 2008 comprises 3,61 mill. Ls** (75% - ERDF funds, 25% national budget).	LGA
	2.3.2 Development of guarantee system by provision of credit and leasing guarantee, portfolio guarantees.	Guarantees provided in extent of 240 mill. Ls indicatively.	2007 - 2013	2007 – 7.04 mill. Ls 2008 – 7.53 mill. Ls 2009- 8.08 mill. Ls 2010 – 8.65 mill. Ls 2011 – 9.16 mill. Ls 2012 – 9.69 mill. Ls 2013 – 10.26 mill. Ls **The total funding for the program comprises 60.41 mill. Ls indicatively** (75% - ERDF funds, 25% national budget).	LGA

2.4.	2.4.1. Relieved receipt of SME financial consultations – integrated support for entrepreneurs. Provided support in elaboration of business plans for receiving the external resources, performance of market and technological researches.	300 projects supported.	2007 2008	2007 – 4.19 mill. Ls 2008 – 4.19 mill. Ls **The total funding for the program comprises 8.38 mill. Ls** (ESF, co-funding from the country).	MLBL
	2.4.2. Relieved receipt of SME financial consultations – integrated support for entrepreneurs. Provided support in elaboration of business plans for receiving the external resources, performance of market and technological researches.	700 projects indicatively supported.	2008 - 2013	2008 - 3.045 mill. Ls 2009 – 3.045 mill. Ls 2010 – 3.045 mill. Ls 2011 - 3.045 mill. Ls 2012 – 3.045 mill. Ls 2013 - 3.045 mill. Ls **The total funding for the program comprises 18.27 mill. Ls indicatively** (ESF, co-funding from the country).	MLBL
2.5.	Promote the availability of funding for modernisation and development of business of SME by communication	Reduced access barriers for MVK in exchange, promoted quotation of SME in alternate securities market.	2008 - 2013	2008 – 0.16 mill. Ls 2009 – 0.16 mill. Ls 2010 – 0.16 mill. Ls 2011 – 0.16 mill. Ls 2012 – 0.16	

	in exchange list, - alternate securities market.			mill. Ls 2013 - 0.16 mill. Ls **The total funding for the program comprises 1.01 mill. Ls** (75% - ERDF funds, 25% national budget)	
2.6.	Promotion of availability of funding for businesses, promoting the exchange of information between the potential private investors and businesses with necessity for funding for own capital. Establishment of business angel culture in Latvia, by establishment of active business angel networks, involve prosperous private persons in the movement of business angels.	Established business angel networks, private investors involved, early stage investments promoted for SME.	2008 – 2013	2008 – 0.36 mill. Ls 2009 – 0.36 mill. Ls 2010 – 0.36 mill. Ls 2011 – 0.36 mill. Ls 2012 – 0.36 mill. Ls 2013 - 0.36 mill. Ls **The total funding for the program comprises 2.20 mill. Ls** (ERDF, co-funding from the country).	
					In total: 170.44 mill. Ls
3. Development of new business initiatives and promotion of their competitiveness, promotion of the understanding of society on the role of innovation in promotion of competitiveness					
3.1.	Publicly available information (including the results of market and other	Provided publicly available information related to government purchases,	Annually	Within the budget of ME, LIDA, LGA (including the technical	ME / LIDA / LGA

	researches; information related to purchases of the state; coordination of different business support programs and improvement of information about such programs); expansion of spectrum, including the distribution of brochures and manuals.	different national business support programs.		support funding of ESF)	
3.2.	Popularization of business and business-related activities by mediation of mass media and public organizations. Promotion of business activity already for the level of primary/secondary school, raising the prestige of business in public opinion.	Promoted motivation of youth to commence the business, studied and distributed good practice examples in the business, performed marketing events for popularising the innovation and business	2007 2008 - 2013	**2007-0.02 mill. Ls**; 2008 – 0.34 mill. Ls 2009 – 0.34 mill. Ls 2010 – 0.34 mill. Ls 2011 – 0.34 mill. Ls 2012 – 0.34 mill. Ls 2013 - 0.34 mill. Ls 2008 - 2013 **The total funding for the program comprises 2.01 mill. Ls** (ERDF, national co-funding).	ME / LIDA
3.3.	Provision of receipt of information for SME and entrepreneurs about issues related to	Consultations provided for businessmen and entrepreneurs about issues they are interested in, annually 500	Annually	Within the budget of LIDA.	LIDA European information centre

	business by one-stop agency principle.	indicatively.			
3.4.	Support for operation of European Information Centre in Latvia.	500 consultations on average provided annually.	2007 - 2010	**2007 – within the budget of LIDA.** Additionally required: **2008 - 0.095 mill. Ls; 2009 - 0.095 mill. Ls; 2010 - 0.095 mill. Ls.**	ME, LIDA
3.5.	Organisation of annual national business forum „Uzņēmēju zinību dienas", where the information is provided for businessmen about factors influencing their activity.	Recent information is provided for businessmen about business management innovations – in human resource planning and development, finance, marketing, etc. branches Number of visitors of the conference – 500 on average annually.	2007 – 2009	**2007 - 0.02 mill. Ls** 2008 – **0.02** mill. Ls 2009 – **0.02** mill. Ls	ME / LABC
3.6.	Organization of annual international quality management conference and Latvian Quality Award competition.	Promoted, advanced interest of business into introduction of quality systems in their business. Number of visitors of the conference – 300 on average annually.	2007 - 2009	**2007 - 0.02 mill. Ls** 2008 – **0.02** mill. Ls 2009 – **0.02** mill. Ls	ME / LVS / LQA
3.7.	Establishment of business incubators. Promoted establishment and development of	Supported development of incubators (redecoration, purchase and installation of necessary	2008 - 2013	2008 - 3.03 mill. Ls 2009 - 3.03 mill. Ls 2010 - 3.03 mill. Ls 2011 - 3.03	ME

	new, viable and competitive businesses in regions of Latvia, by provision of infrastructure and consulting services for them.	facilitation and equipment for the premises, and other costs required for adjustment of premises).		mill. Ls 2012 - 3.03 mill. Ls 2013 - 3.03 mill. Ls **The total funding for the program comprises 18.19 mill. Ls** (ERDF, national co-funding). Establishment of business incubators will be supported in regions of Latvia, one per each region. Representatives of regions participate in decision making. Establishment of business incubators in Riga, Riga region or Jūrmala will not be supported.	
3.8.	Support for small and medium businesses operating in particularly supported territories. Contributions into development.	Support for small and medium businesses operating in particularly supported territories. Contributions into equipment, elaboration of projects, implementation of information and communication technologies, and	2007 - 2013	2007 – 1.60 mill. Ls 2008 – 4.27 mill. Ls 2009 – 9.60 mill. Ls 2010 – 9.60 mill. Ls 2011 – 9.60 mill. Ls 2012 – 9.60 mill. Ls 2013 – 9.10 mill. Ls **The total**	ME

		receipt of patents and licences		**funding for the program comprises 53.3 mill. Ls** (ERDF, national co-funding). Intensity of support is determined as 40%. Support intensity is increased by 10% for businesses implementing the project into EU land frontier parish or region	
3.9.	Support for investments into human resources of the businesses	Contributions of businessmen are supported for training of employees, their re-qualification and improvement of qualification	2007 - 2013	2007 – 4.41 mill. Ls (11.66%) 2008 – 4.73 mill. Ls (12.50%) 2009 – 5.06 mill. Ls (13.38%) 2010 – 5.39 mill. Ls (14.27%) 2011 – 5.73 mill. Ls (15.16%) 2012 – 6.07 mill. Ls (16.06%) 2013 – 6.41 mill. Ls (16.97%) **The total funding for the program comprises 37.80 mill. Ls** (ESF, national co-funding). Part of projects	ME/LIDA MW / SEA

				implemented into particularly supported territories have the increased support intensity available in extent of 10%.	
3.10.	Provision of mentoring – process, where experienced businessmen (mentor) shares his experience, knowledge and contacts with the new/prospective businessman (successor of experience) and the successor of experience develops his professional skills and searches for solution for his business problems – availability of services in Latvia.	5 mentoring programs realized; specific databases of mentors are formed.	2008 - 2013	2008 – 0.40 mill. Ls 2009 – 0.40 mill. Ls 2010 – 0.40 mill. Ls 2011 – 0.40 mill. Ls 2012 – 0.40 mill. Ls 2013 - 0.40 mill. Ls **The total funding for the program comprises 2.01 mill. Ls** (ERDF, national co-funding).	ME / LIDA
3.11.	E-commerce information days, organization of seminars and e-commerce competition "best e-commerce businessman".	At least 1 e-commerce information day organized for SME annually. At least 4 seminars organized for members of e-commerce club annually. Nominations	2008 - 2013	Additionally required: **2008 – 0.01 mill. Ls;** **2009 – 0.01 mill. Ls;** **2010 – 0.01 mill. Ls;** **2011 – 0.01 mill. Ls;** **2012 – 0.01 mill. Ls;**	LIDA / ME

		delivered - „ best e-commerce businessman" in different categories promoting healthy competition and improvement of trade quality among e-commerce businesses, annually.		**2013 – 0.01 mill. Ls.**	
3.12.	Establishment of e-commerce section block on the Internet environment, its constant updating and integration of platform of club for persons interested in e-commerce into e-commerce section block.	E-commerce section block established on the Internet, providing informatively updated and educational platform for businessmen in issues related to e-commerce. Established club for persons interested in e-commerce (platform), which will promote the formation of feedback of IT representatives (elaborators of e-commerce solutions), SME and LIDA (ME) for effective solution of issues regarding e-commerce (discussions, advices, practical consultations, elaboration of solutions etc.).	2008 – 2013	Additionally required: **2008 - 0.02 mill. Ls; 2009 – 0.01 mill. Ls; 2010 - 0.01 mill. Ls; 2011 - 0.01 mill. Ls; 2012 - 0.01 mill. Ls; 2013 - 0.01 mill. Ls.**	LIDA

3.13.	Provision of short-term consultations for businessmen for utilization options and solutions of e-commerce and elaboration of CD-ROM „E-commerce set for beginners – guide to issues of e-commerce".	20 short-term consultations on average provided annually for businessmen about utilization options and solutions of e-commerce. 1000 CD-ROM „E-commerce set for beginners – guide to issues of e-commerce" are produced, which provides the distribution of educational information among SME, which do not use Internet in business processes yet.	2008 – 2013	Additionally required: **2008 - 0.025 mill. Ls; 2009 - 0.01 mill. Ls; 2010 - 0.01 mill. Ls; 2011 - 0.025 mill. Ls; 2012 - 0.01 mill. Ls; 2013 - 0.01 mill. Ls.**	LIDA
3.14.	Informative events for consumers about protection of consumers' rights and safety in Internet doing the purchases in e-stores.	Residents, and particularly users of Internet, are informed about protection of consumers' rights and safety in Internet doing the purchases in e-stores.	2008 – 2013	Additionally required: **2008 – 0.02 mill. Ls 2009 – 0.02 mill. Ls 2010 – 0.02 mill. Ls 2011 - 0.02 mill. Ls 2012 - 0.02 mill. Ls 2013 - 0.02 mill. Ls**	CRPC/ ME
3.15.	Organisation of informative seminars and publishing of informative materials on innovation issues.	Annually at least 8 informative seminars or conferences organised, 2 informative materials published and at least 1 broadcast programme of innovations.	Annually.	**2007 - 0.092 mill. Ls; 2008 - 0.037 mill. Ls; 2009 - 0.037 mill. Ls; 2010 - 0.057 mill.**	ME, LIDA

				Ls; 2011 - 0.037 mill. Ls; 2012 - 0.037 mill. Ls; 2013 - 0.057 mill. Ls.	
3.16.	Promotion of acquisition, popularisation and introduction of good practice in field of innovation into businesses.	Annually 5-7 projects are supported for popularisation of good practice.	Commenced on 01.01.2008. Implementation by 31.12.2013.	**2008 - 0.04 mill. Ls; 2009 - 0.06 mill. Ls; 2010 - 0.06 mill. Ls; 2011 - 0.08 mill. Ls; 2012 - 0.08 mill. Ls; 2013 - 0.08 mill. Ls.**	ME, LIDA
3.17.	Organisation of Innovation Award competitions.	Annually organised competition and the best innovation project awarded.	Annually.	**2007 - 0.006 mill. Ls; 2008 - 0.012 mill. Ls; 2009 - 0.012 mill. Ls; 2010 - 0.012 mill. Ls; 2011 - 0.012 mill. Ls; 2012 - 0.012 mill. Ls; 2013 - 0.012 mill. Ls.**	ME, LIDA
3.18.	Organisation of competitions of business plans in universities.	Annually a training course for business organised in at least 3 universities, establishment of 5-8 new	Annually.	**2007 - 0.017 mill. Ls; 2008 - 0.017 mill. Ls; 2009 -**	ME, LIDA

		businesses initiated.		**0.02 mill. Ls; 2010 - 0.02 mill. Ls; 2011 - 0.023 mill. Ls; 2012 - 0.023 mill. Ls; 2013 - 0.023 mill. Ls.**	
3.19.	Provision of translations of necessary European and international standards into Latvian language	100 – 300 standards translated annually	Annually	**2007 - 0.101 mill. Ls; 2008 - 0.308 mill. Ls; 2009 - 0.308 mill. Ls; 2010 - 0.308 mill. Ls; 2011 - 0.35 mill. Ls; 2012 - 0.35 mill. Ls; 2013 - 0.35 mill. Ls.**	ME, LVS
3.20.	Organisation of conferences of development of creative industries in Latvian national economy.	3. Businessmen and representatives of government institutions are introduced with the latest information in field of creative industries; planned number of visitors – 1000.	4. November 2007	5. Within the budget of MC: **The total funding comprises 0.005 mill.Ls**	Ministry of Culture
					In total: 117.68 mill. Ls
4. Promotion of cooperation of industrial, education and science sectors, transfer of knowledge and commercialisation					

4.1.	Support for establishment and operation of centres of competence to promote the industrial research performed by industrial and scientific institutes together.	Establishment of at least 5 centres is supported, which annually provides implementation of at least 25 cooperation projects.	Commenced on 01.01.2008. Implementation by 31.12.2013.	ERDF, national co-funding: **2008 - 5.26 mill. Ls; 2009 - 5.57 mill. Ls; 2010 - 5.89 mill. Ls; 2011 - 6.21 mill. Ls; 2012 - 6.53 mill. Ls; 2013 - 6.86 mill. Ls.**	ME, LIDA
4.2.	Support for performance of market-oriented research.	At least 30 projects supported annually.	Annually	**2007 - 0.83 mill. Ls; 2008 - 0.95 mill. Ls; 2009 - 1.10 mill. Ls; 2010 - 1.20 mill. Ls; 2011 - 1.35 mill. Ls; 2012 – 1.40 mill. Ls; 2013 – 1.50 mill. Ls.**	MES
4.3.	Support for international cooperation of businesses and scientific institutions by provision of support for participation in projects of EUREKA program.	At least 10 SME projects supported annually.	Annually.	**2007 - 0.40 mill. Ls; 2008 - 0.40 mill. Ls; 2009 - 0.40 mill. Ls; 2010 - 0.40 mill. Ls; 2011 - 0.40 mill. Ls; 2012 - 0.60 mill. Ls; 2013 - 0.70 mill. Ls.**	MES
4.4.	Support for operation of contacts of transfer of technologies in	80 commercialization proposals on average are elaborated	Implementation by 31.12.2013.	**2007 - 0.201 mill. Ls.** ERDF, national co-	ME, LIDA

	universities and promotion of protection of intellectual property of scientific institutes and their introduction into production.	annually, 40 cooperation contracts are initiated with businesses, 4 information distribution events are organized, 3 international applications for patents prepared.		funding: **2008 - 0.615 mill. Ls; 2009 - 0.651 mill. Ls; 2010 - 0.688 mill. Ls; 2011 - 0.726 mill. Ls; 2012 - 0.764 mill. Ls; 2013 - 0.802 mill. Ls.**	
4.5.	Support for operation of Innovation promotion centre in Latvia.	15 technology audits performed annually, 10 proposals or requests of technologies published, 5 information distribution events organized.	Annually.	**2007 - 0.042 mill. Ls;** Additionally required: **2008 - 0.075 mill. Ls; 2009 - 0.098 mill. Ls; 2010 - 0.098 mill. Ls; 2011 - 0.135 mill. Ls; 2012 - 0.135 mill. Ls; 2013 - 0.135 mill. Ls.**	ME, MES, LIDA, LTC
4.6.	Support for establishment and operation of Innovation centres in universities and national scientific institutes.	At least 3-5 Innovation centres established, which annually provide services of support from the centre for 10-15 new innovative businesses.	Implementation by 31.12.2013.	**2007 - 0.60 mill. Ls. 2008 - 0.60 mill. Ls;** Additionally required: **2009 - 0.90 mill. Ls; 2010 - 0.90 mill. Ls; 2011 - 0.90 mill. Ls; 2012 - 0.90 mill. Ls; 2013 - 0.90 mill. Ls.**	ME,
					In total: 58.81 mill. Ls
5. Promotion for development of industrial branches and increasing the productivity					

5.1.	Support for development of new products and their introduction into production.	At least 42 projects supported annually.	Commencement on 01.01.2008. Implementation by 31.12.2013.	ERDF, national co-funding: **2008 -12.75 mill. Ls; 2009 -13.50 mill. Ls; 2010 -14.30 mill. Ls; 2011 -15.00 mill. Ls; 2012 -15.80 mill. Ls; 2013 -16.60 mill. Ls.**	ME, LIDA
5.2.	Support for attraction of highly qualified specialists to businesses for solving certain technological problems and development of products.	Attraction of at least 34 specialists promoted annually.	Commencement on 01.01.2008. Implementation by 31.12.2013.	ERDF, national co-funding: **2008 - 0.713 mill. Ls; 2009 - 0.754 mill. Ls; 2010 - 0.797 mill. Ls; 2011 - 0.841 mill. Ls; 2012 - 0.884 mill. Ls; 2013 - 0.929 mill. Ls.** Projects implemented outside Riga and Riga region have the increased support intensity available in extent of 10%.	ME, LIDA
5.3.	Promotion for implementation of large investment projects, which provides the establishment of new production units, where	1-2 investment projects supported annually.	Commencement on 01.09.2008. Implementation by 31.12.2013.	ERDF, national co-funding: **2008 - 2.00 mill. Ls; 2009 - 2.10 mill. Ls; 2010 - 2.30 mill. Ls;**	ME, LIDA

	products with high added value would be produced.			**2011 - 2.40 mill. Ls; 2012 - 2.50 mill. Ls; 2013 - 2.70 mill. Ls.**	
5.4.	Strengthening the competitiveness of businesses by development and implementation of planned strategies for clusters and implementation of cooperation projects.	Support provided for implementation for 5-6 strategies of clusters.	Commencement on 01.01.2008. Implementation by 31.12.2013.	ERDF, national co-funding: **2008 - 1.30 mill. Ls; 2009 - 1.30 mill. Ls; 2010 - 1.40 mill. Ls; 2011 - 1.50 mill. Ls; 2012 - 1.60 mill. Ls; 2013 - 1.70 mill. Ls.**	ME, LIDA
5.5.	Publishing the manual for businessmen and organizations uniting them on development of clusters, support for elaboration of initial strategies of clusters.	Improved understanding of businessmen and organizations uniting them on development of clusters, improved their capability to use the opportunities provided by the Program 2008 - 2013.	2007	**2007 - 0.006 mill. Ls**.	ME
5.6.	Training to coordinators of clusters, annual experience exchange and good practice distribution events on development and implementation of strategies of clusters.	Provided qualification for coordinators of clusters; 1-2 common experience exchange events and events for discussing the results of activities are annually organized for branch clusters.	2008 - 2013	**2008 – 0.03 mill. Ls; 2009 - 0.03 mill. Ls ; 2010 - 0.04 mill. Ls; 2011 - 0.04 mill. Ls; 2012 - 0.05 mill. Ls; 2013 - 0.05 mill. Ls.**	ME, LIDA

5.7.	Participation in common projects *BSR InnoNet* of Baltic Sea Region and Northern countries for promotion of clusters.	Provided experience exchange, identification of common projects in field of promotion of clusters among Baltic Sea Region and Northern countries.	2007 - 2009	Within the budget of ME, LIDA.	ME, LIDA
5.8.	Constant development and forecasting of strategical vision for development of industrial branches, when organising the annual forum for experts "Strategical development of industrial branches".	On the basis of attraction of the experts of main industrial branches the common vision on prospects of development and challenges of branches in medium- and long-term is formulated and maintained.	2008- 2013	**2008 – 0.01 mill. Ls; 2009 - 0.01 mill. Ls; 2010 - 0.01 mill. Ls; 2011 - 0.01 mill. Ls; 2012 - 0.01 mill. Ls; 2013 - 0.01 mill. Ls.**	ME
5.9.	Research on development of separate industrial branches.	Provided and regularly updated informative basis on development and problems of the most important industrial branches.	2008 - 2013	**2008 – 0.02 mill. Ls; 2009 - 0.02 mill. Ls; 2010 - 0.02 mill. Ls; 2011 - 0.02 mill. Ls; 2012 - 0.02 mill. Ls; 2013 - 0.02 mill. Ls.**	ME
5.10.	Promotion of utilization of professional design in industrial businesses, and therefore the added value and the international competitiveness of the products would be	Design audits are performed in businesses, design consultations provided for increasing the added value of the product; industrial design portal is established and maintained.	2007 - 2013	**2007 – 0.048 mill. Ls.** Additionally required: **2008 – 0.12 mill. Ls; 2009 - 0.15 mill. Ls; 2010 - 0.18 mill. Ls; 2011 -**	ME, LIDA

	increased (maintaining the connection between industrial branches and professional design sector, information provision, initiation and implementation of promotive events).			**0.18 mill. Ls; 2012 - 0.18 mill. Ls; 2013 - 0.18 mill. Ls.**	
					In total: 117.13 mill. Ls

Minister of Economics

J.Strods

04.10.2010 11:50
3059
Fogele
Tel.: 7013111
E-mail: Agnese.Fogele@em.gov.lv

Appendix 2
To the Program for Promotion of
Business Competitiveness
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Main terms used (definitions)

Business incubator **–** a structure, whose basic function is promotion of establishment of new companies in any branch of national economy by provision of premises, infrastructure services and consultations on basic issues of business in its "incubation period" (3-5 years usually).

Business and Innovation Centre – BIC – ***technological centre*** established in accordance with principles determined by European Union and with its support.

Human capital – capabilities of persons for productive and economically active action, their knowledge, skills and experience.

Electronical services *(e-services)* – services of information society, which are provided remotely by utilization of information and communication technologies.

E-business **–** improvement and completion of internal processes of business using the electronic environment, and options provided by modern equipment and technologies with the purpose of gaining profit.

E-commerce **–** in a narrower sense – any purchase/sales transaction of commodities or services, which is performed via the Internet, Extranet or any other application, which is managed via the Internet, e.g., EDI. Delivery of commodities and services can be performed online or outside it.

In a wider sense e-commerce means transactions performed via the Internet and additional transactions performed with EDI or some other online application, which supports performance of automated transactions (e.g., interactive telephone systems). Transactions performed via facsimile, telephone or e-mail are not included.

/Statistics on the information society in Europe - Data 1996-2002 (European Communities, 2003)/

Theoretical sciences – research, analyse and explain the general regularities in nature and society irrespective of their practical application. In short-term they usually do not have commercial application, but they promote the competitiveness of Latvian scientists in the world science space, increase the quality of higher education in the country, and therefore also the options for attraction of funding for scientific research.

Sustainable development – integrated and balanced development of social welfare, environment and economics, which satisfies the current social and

economical needs of inhabitants and provides observance of environmental requirements without any threats to options for satisfying the needs of further generations, and provides preservation of biological diversity.

Information society – a society, where the skill for obtaining, fixing and creation of new information is the main gauge of the person for valuating his options for increasing his welfare and evaluation of his social value.

Information and communication technologies (ICT) – technologies providing fast acquisition, processing, storing and distribution of information.

Innovative business – a business creating and developing innovative products or processes and implementing them in the market (the products and processes) or in the business (processes) in a certain period of time.

Innovative product – a product, which promotes establishment of a new market niche, or is considerably different from previously produced products or provided services.

Innovation – a process, where new ideas, elaborations and technologies of scientific, technical, social, cultural or other branch are implemented into market as a competitive product or service.

Innovation support structures – institutions supporting the commercialization of research results and establishment of technologically oriented businesses. For example, science and technological parks, technological and innovation centres, and business incubators etc.

Invention – an elaboration based on a new idea, which was unknown up till now and which has not been commercialized.

Cluster – network of cooperation of businesses, research, education and other related institutions, which operates in a definite branch of national economy or interrelated branches, uses related technologies and resources of labour force of similar profile, consists of legally independent businesses competing with each other and implements mutual cooperation in the same time.

Commercialisation – development of the innovative idea, product or process for market.

Centre of competence – centre established by cooperation of one (or more) businesses with laboratories of a university (or scientific institute), whose researches serve for creation of new and demanded knowledge or intellectual values, which can be commercialised.

Competitiveness - (for a country) the capability of the state to create and maintain the conditions promoting the creation of value for businesses and welfare for inhabitants. ***(for businesses)*** competitiveness of businesses – capability to create and maintain conditions allowing remaining in the market and development.

Applied research – focused activity for solving mostly the specific problems of commercial nature.

Applied sciences – solve the problems arising from implementing the conclusions obtained in theoretical research into practice or from solving the issues proposed by practice. Results of applied scientific research can be used commercially relatively quickly.

Small and medium businesses – businesses, whose number of employees does not exceed 249, annual turnover does not exceed 50 million euros, and the total sum of annual balance does not exceed 43 million euros. This group includes microbusinesses, small and medium businesses.

National innovation capacity – capacity of the society to create and commercialise new knowledge within a definite period of time.

National innovation system – aggregate of governmental, public and private sector institutions and events implemented by them, which promotes creation, storage, exchange and practical application of new knowledge. It includes research (education, science, and creation), business, financial system, legislation.

Productivity – value of produced goods and services per one unit of resources.

Industry – (in context of this program) manufacturing industry.

Transfer of technologies (knowledge) – transfer of a certain technology (knowledge, production skill, technologies) from one user of technologies to another, technologies elaborated in one country are used in another with purpose of creation of new products, processes or services.

Technological centre (innovation centre, also technological business incubator) – centre, providing premises and infrastructure services for new innovative companies, consultations for technological business about specific issues and helping them in attraction of investments, loans and means of different innovation funds. This ensures the connection between research laboratories and producing businesses.

Technologically innovative process – a process, which includes new and different methods (techniques).

Society of knowledge – a society, where the economical process is advanced by information and knowledge. Its development is determined by access to information and skills for its management, well timed and gradual over orientation of investment flow to intangible values – social capital of society, by understanding of its important role in the circulation of economical processes.

Economy advanced by knowledge (knowledge-based) – economical system, whose main development and productivity factor is utilization of knowledge and technologies in an innovative way.

Science and technological park – complex of human resources, knowledge and infrastructure, which has favourable conditions for mutually complementing development of production of higher education, research work and science-intense products. It contains scientific research institutions, universities or their institutes, one or more technological centres, business incubators or industrial zone and consultation office or centres specialized according to operational direction.

Minister of Economy J.Strods

04.10.2010 11:50
915
Fogele
Tel.: 7013111
E-mail: Agnese.Fogele@em.gov.lv

Appendix 3
To the Program for Promotion of
Business Competitiveness
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Overview on the situation in Latvian national economy

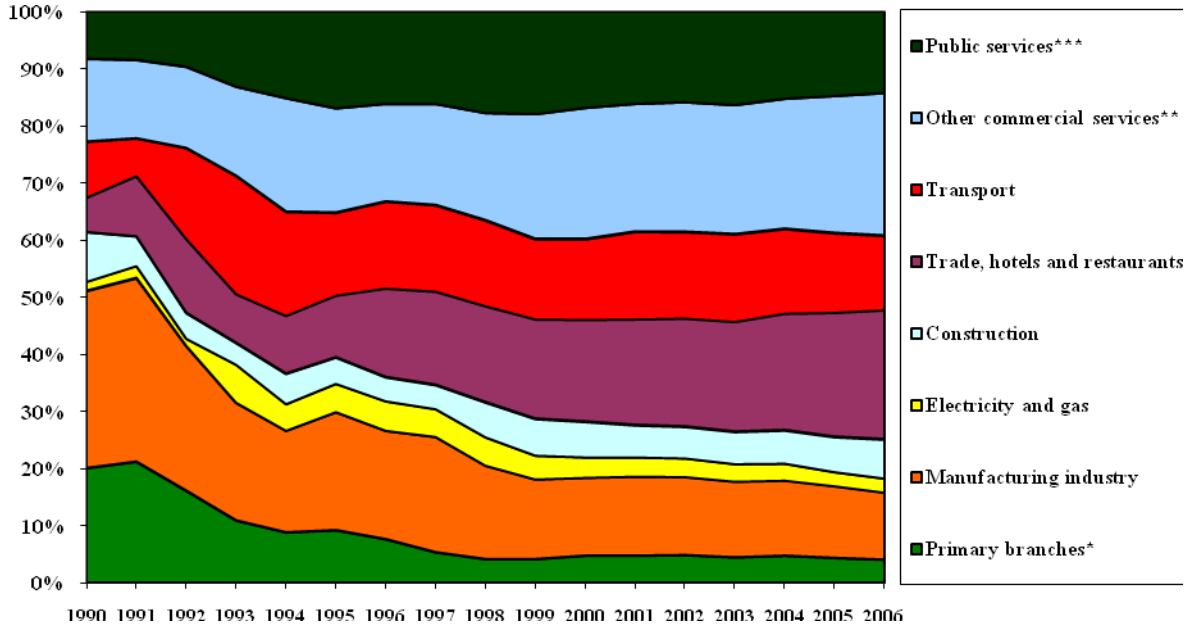
The overview on the situation in Latvian national economy includes the period of time from 1990 to 2006. It analyses the structure, dynamics and productivity of national economy. The overview is divided into two thematic parts. First part reviews the Latvian national economy in general and by division of aggregated branches. The second part is devoted to manufacturing industry and its largest sub-sectors. The final part of each part contains brief conclusions.

1. Structure of national economy

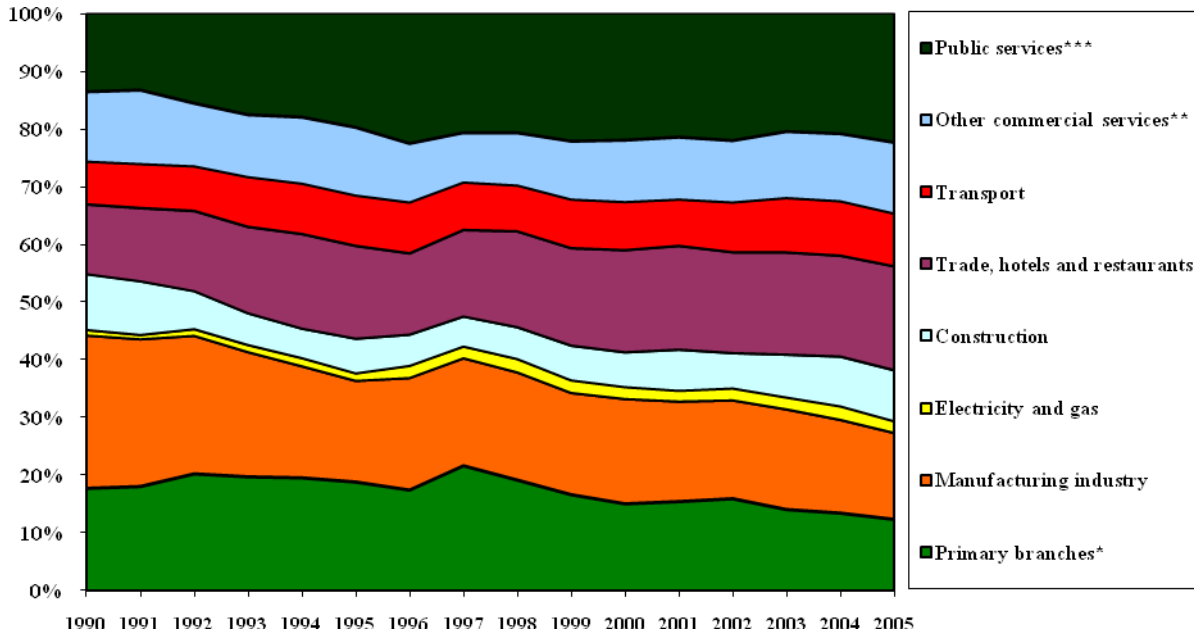
The current structure of Latvian national economy in the section by branches has changed materially for benefit to service branches, comparing to 1990. Their proportion in value added has increased to 74.8% in 2006 comparing to 38.6% in 1990.

Figure 1

Structure of national economy
By value added, %



By the number of employed, %



* Agriculture and forestry, fishery, extractive industry and output of quarries

** Financial intermediaries, real estate operations, individual households with paid labour force

*** State administration and defence, education, health and social care

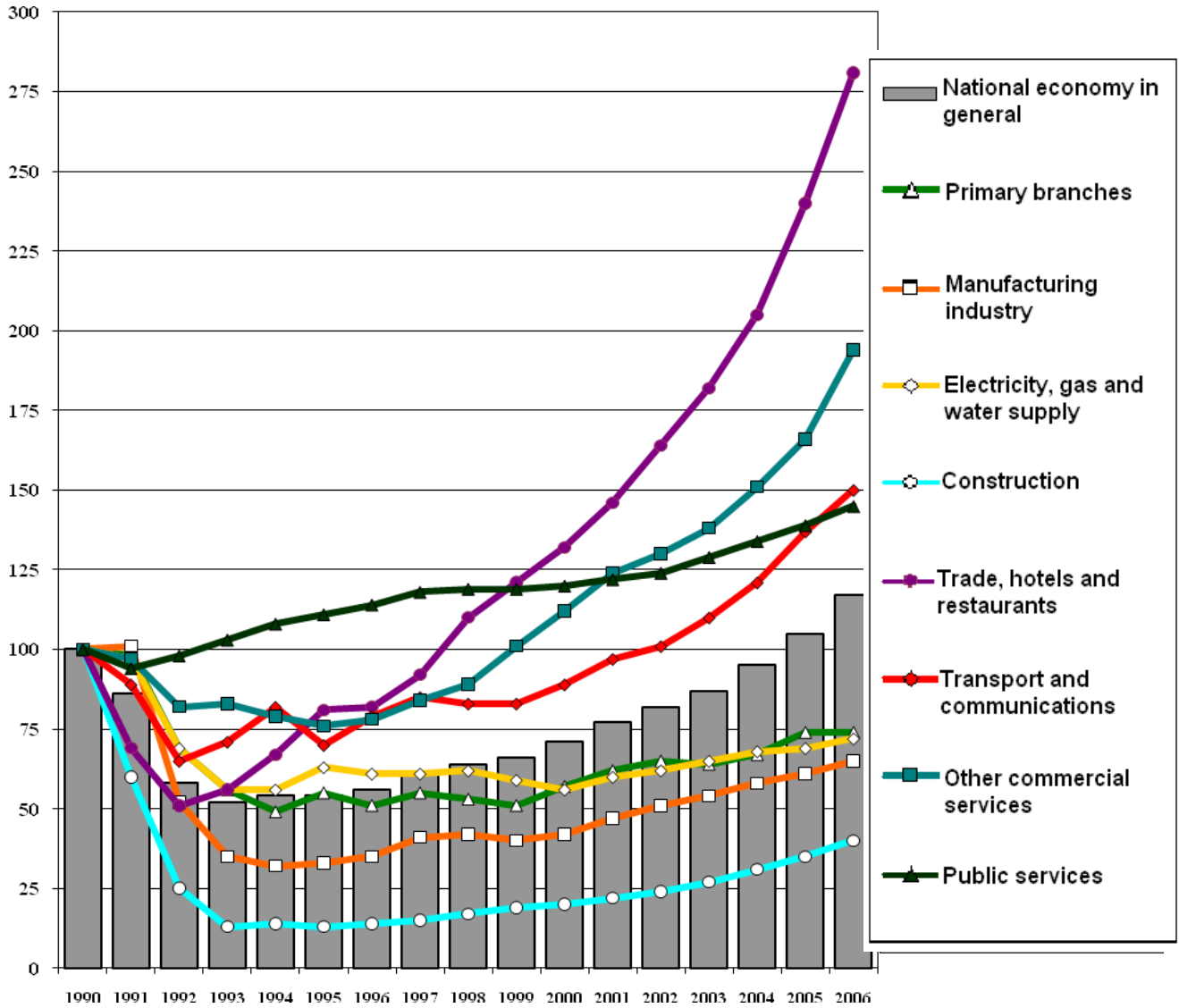
The most rapid changes took place in the first years of transition period. During the first 3 years (1991 - 1993) the total production volumes annually decreased almost by 1/5 and with different intensity in different branches of national economy. Particularly large decrease was observed in industry, where production volumes decreased by 65% within three years time, i.e., by 30% on average per annum, losing the traditional sales markets in East and

being incapable of acquisition of new ones in short time, and with material decrease in internal demand.

In 1994 the situation stabilized – the overall production volumes did not decrease anymore. But the structural changes continued – by increase in the output of service branches and decrease in volume of industrial production the employment decreased more rapidly comparing to previous years. In 1997 the development was already considerable, but it was interrupted for two years by impact of financial crisis of Russia to the industrial sales market due to the decrease.

Figure 2

GDP dynamics
(1990 = 100)



Since 2000 Latvia experienced a rapid growth, and the proportion of service branches continued to increase. From 2000 to 2006 the construction, trade services and transport and communications have developed more rapidly than other branches of national economy. Also the production volumes and number of their employees have also materially increased in these branches.

The rapid economical development in the previous years was ensured by the increase in internal demand, and less by the expanded number of export

options. The increase in the internal demand directly influenced the rapid growth of several service branches, but the increase in the industrial production volumes was based mostly on the increase in export.

Latvia has low proportion of manufacturing industry in national economy. If in 2005 the proportion of manufacturing industry by added value in national economy of 15 European Union (hereinafter - EU) countries was 17.2%, 16.8% in Estonia, 22.1% in Lithuania, then in Latvia this ratio was only 12.7%.

Table 1

GDP dynamics

(%)

	Average annual growth rates			
	1991-1995	**1996-2000**	**2001-2005**	**2006**
Primary branches*	-11,3	0,8	5,3	0,4
Manufacturing industry	-19,8	5,0	7,5	6,2
Electricity, gas and water supply	-9,0	-2,1	4,2	4,0
Construction	-33,5	9,3	11,8	13,6
Trade, hotels and restaurants	-4,1	10,3	12,7	17,2
Transport and communications	-6,9	4,9	9,1	9,3
Other commercial services **	-5,5	8,2	8,3	16,7
Public cervices ***	2,1	1,5	3,0	4,4
GDP	**-11,6**	**5,4**	**8,1**	**11,9**

* Agriculture and forestry, fishery, extractive industry and output of quarries

** Financial intermediaries, real estate operations, individual households with paid labour force

*** State administration and defence, education, health and social care

2005 was the first year, when volume of GDP (in comparable prices) exceeded level of 1990 (by 3.6%). But the production volumes of 1990 have not been attained in all branches. In 2006 all branches for producing commodities, including manufacturing industry, had lower production volumes comparing to 1990. Higher volumes are observed only in service branches.

By employment the structure of national economy considerably differs from the structure by added value, it can be explained with expressly different productivity level in different branches of national economy.

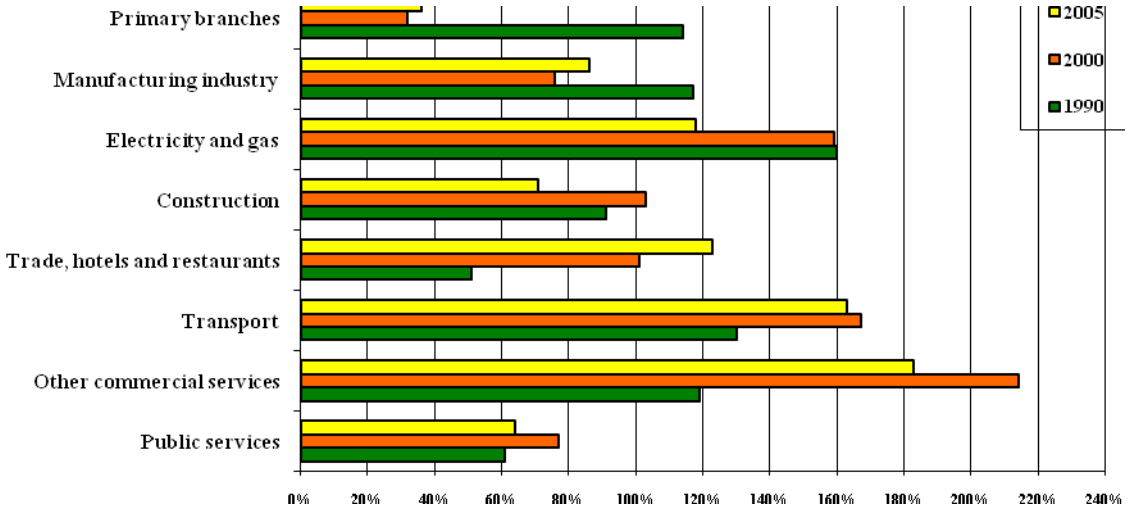
In 1990 the branch "electricity, gas and water supply" had the highest level of productivity, which exceeded the average in the national economy by 60%, but trade services had the lowest level (half of the average). Productivity above average was also in agriculture, manufacturing industry, transport and a communications, and commercial services.

However in 2005 the situation has changed materially – almost all branches of producing commodities (except for the branch "electricity, gas and water supply") had their level of productivity lower than the average in national economy.

Figure 3

Productivity in branches of national economy

(Value added per one employed, on average in the national economy =100)



The productivity of commercial and trade services have increased most rapidly within this period, it has doubled. Productivity of manufacturing industry has grown for 50%.

Latvia has one of the lowest productivity levels in EU. In Latvia its level is 47.9%, but in Lithuania – 53.4%, Estonia – 58.5% from the average level of EU-25. The low productivity level in average in national economy or the low level of income is largely determined by the expressly low productivity directly in the industry. Mainly the productivity of EU countries in industry is higher than the average of national economy. Industrial productivity in Latvia is lower than the average of national economy.

Conclusions

- Since restoration of independence the structure of Latvian national economy have experienced considerable changes – the proportion of service branches has increased materially. Explicit structural changes continued also in the recent years by the continuation of tendency that the growth in service branches has more rapid rates comparing to the branches for producing commodities.
- Latvia has very low proportion of manufacturing industry in the national economy, and it is far from the average level in EU.
- The rapid development rate of service branches cannot substitute the relatively slow development of more export-capable branch of manufacturing industry. Disproportions are developing into the national economy – the export increases slowlier than import.

- Latvia has one of the lowest levels of productivity in EU. The low level of productivity on average in national economy is largely determined by the very low productivity exactly in the industry.
- If the productivity level in export-capable branches is lower than the average in national economy, which shows that the international competitiveness of the country is gradually decreasing.

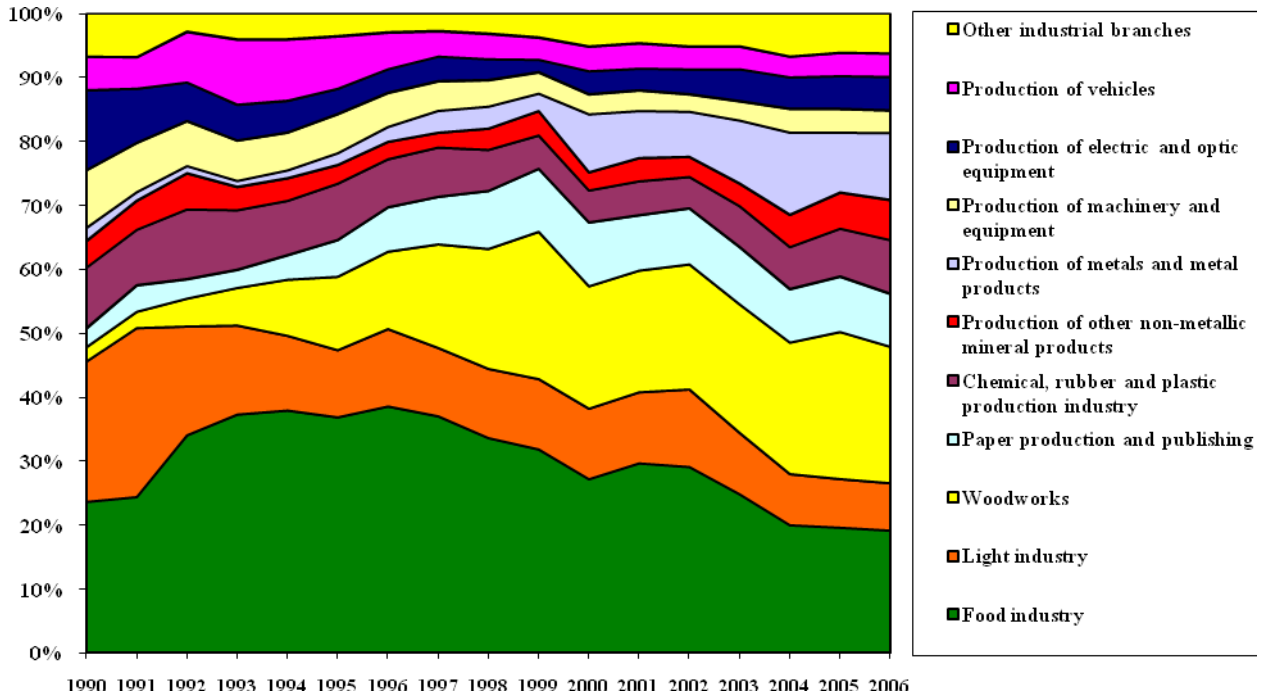
2. Manufacturing industry

Also the structure of manufacturing industry has changed materially. The share of light industry and engineering industry has decreased a lot in its structure, but the proportion of woodworks and metals and their ware has increased.

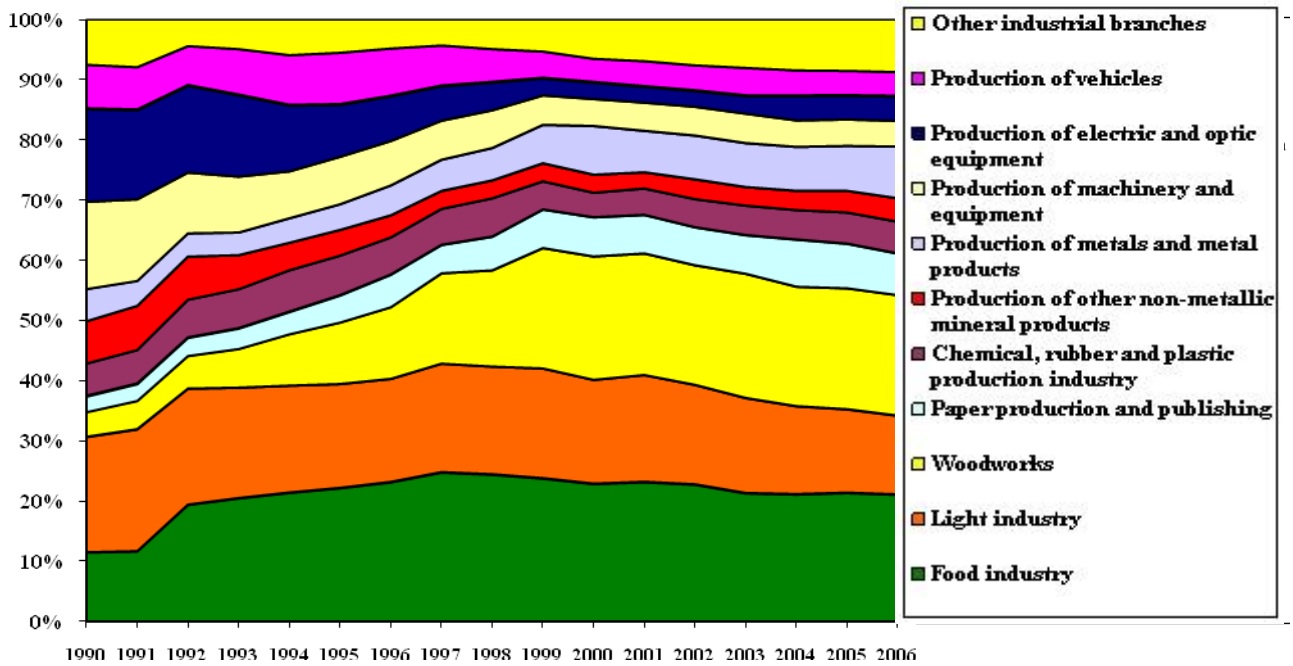
Figure 4

Structure of manufacturing industry

By value added, %



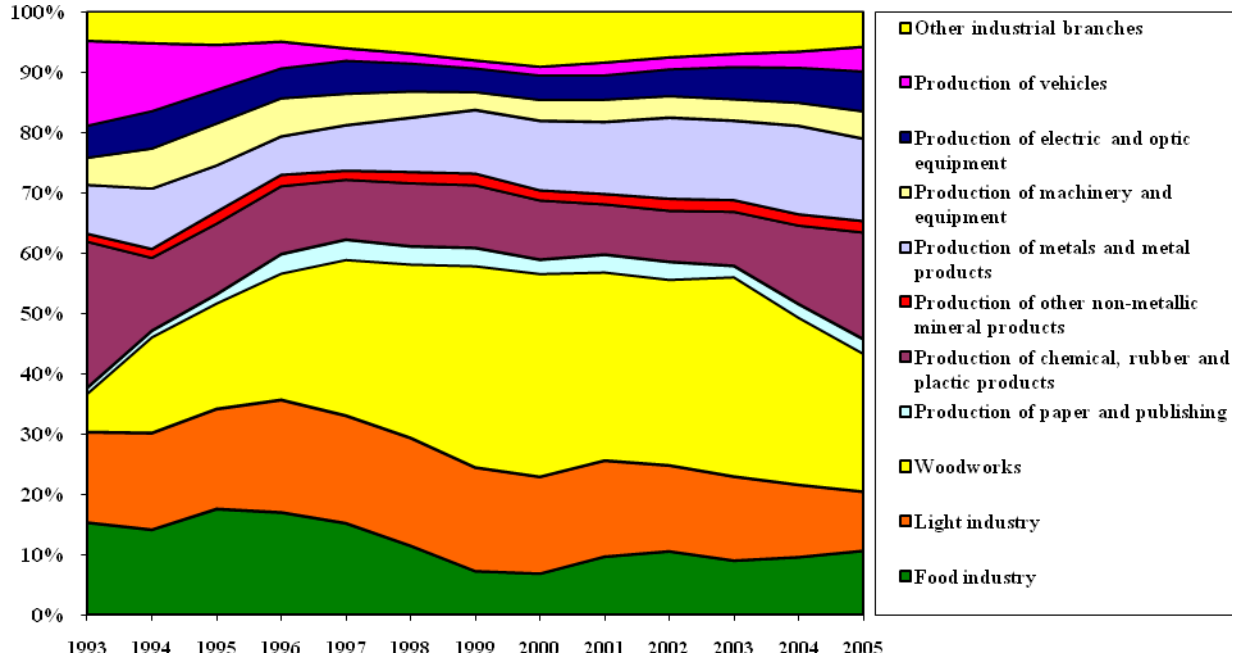
By number of employees, %



The share of woodworks has materially increased in the export of Latvian industry comparing to 1993[10], as well as the share of metals and their products. But the export of light industry products and vehicles has decreased considerably.

Figure 5

Export structure of manufacturing industry
(%)



[10] Data on 1990 unavailable
EM_260607_Komercdarb_konkuretsp_un_inovac_veic_pr_2007-2013_EN.doc; Program for Promotion of Business Competitiveness and Innovation 2007 - 2013

The development of manufacturing industry was stable in the recent years, however it is still behind the average of national economy.

Table 2

Manufacturing industry growth*

(%)

	Average annual growth rates 2002 – 2006 *	2005	2006*
Manufacturing industry - total	**6.7**	**5.9**	**6.2**
Food industry	5.6	5.1	4.8
Light industry	2.6	8.7	8.5
Woodworks	5.6	2.7	-1.4
Production of paper and publishing	5.3	11.7	8.8
Chemical, rubber and plastic products	13.1	15.4	21.4
Production of other non-metallic mineral products	12.2	24.1	4.7
Production of metals and metal products	6.7	2.7	8.1
Production of machinery and equipment	8.5	3.1	-0.3
Production of electric and optic equipment	19.1	6.5	8.7
Production of vehicles	1.0	6.5	-2.8
Other industrial branches	6.9	4.2	6.0

* According to operative statistics

Most of production produced by branches is exported; therefore the development of branches is largely depending on the increase in the exporting options.

Immediately after accession to EU the development rates of EU manufacturing industry decreased, because some time passed while the companies adjusted to the new trade conditions. A considerable development resumed in May 2005.

Table 3

Structure of manufacturing industry in 2006*

(%)

	By value added	By number of employees	Proportion of export in the sales of a branch
Manufacturing industry - total	**100**	**100**	**50.0**
Food industry	19.2	21.1	24.3
Light industry	7.4	13.0	76.0
Woodworks	21.3	20.1	67.3
Production of paper and publishing	8.2	6.9	23.5
Chemical, rubber and plastic products	8.4	5.3	56.5

Production of other non-metallic mineral products	6.2	3.9	19.9
Production of metals and metal products	10.5	8.6	67.0
Production of machinery and equipment	3.5	4.3	74.1
Production of electric and optic equipment	5.2	4.0	65.8
Production of vehicles	3.7	4.0	72.8
Other industrial branches	6.1	8.7	56.7

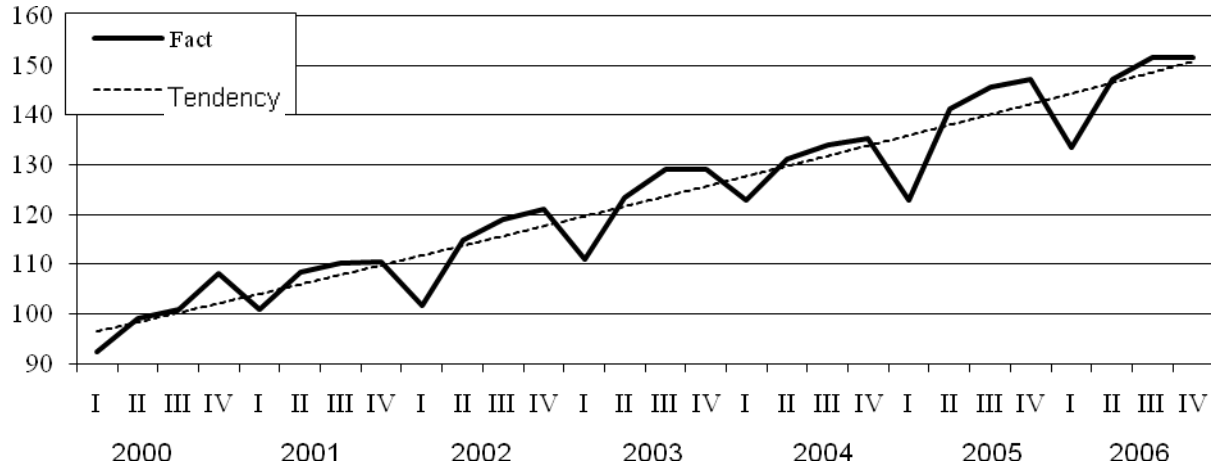
* According to operative statistics

In 2006 the branches, whose sales markets are relatively less related to export, had more rapid development. One of the main export branches of Latvia, the woodworks, has poorer development rates already for the second year; in 2006 even a small decrease in production volumes was observed.

Figure 6

Development dynamics of manufacturing industry by quarters

(Level of 2000 =100)



In general the development tendency of the manufacturing industry is even and without any sharp accelerations or declines. Decrease in development rates of certain branches are compensated by increase in development rates of other branches. Almost in all industrial sub-sectors the results of 2006 show increase in production volumes comparing to 2000 (except for production of vehicles). After accession to EU the development rates increased in paper production and publishing, chemical industry, production of construction materials production of electric and optic equipment. Other branches maintained the previous development rates, or they have decreased a little.

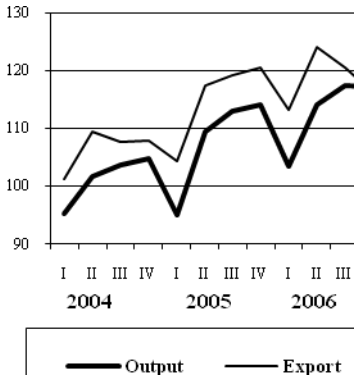
In the post-accession period the export mostly expanded towards Estonia and Lithuania, and increase in export to these countries was in larger volume than comparing to export to other EU countries. The export of manufacturing industry products grew rapidly to countries of Commonwealth of Independent States (hereinafter - CIS).

Figure 7

Description of manufacturing industry

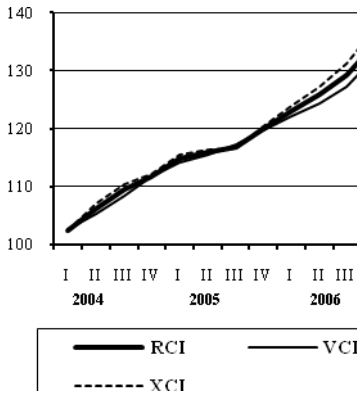
Output and export dynamics

(IV quarter 2003 = 100)



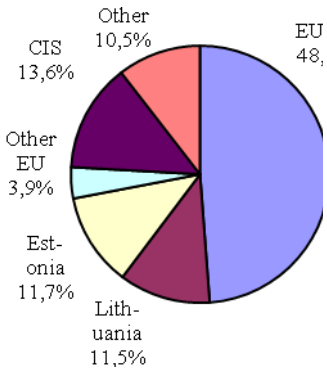
Dynamics of producers' prices*

(IV quarter 2003 = 100)



Export structure by groups of states

(2005)



* RCI – indexes of producers' prices, VCI – indexes of producers' prices for the production sold in local market, XCI – indexes of producer' s prices for exported production

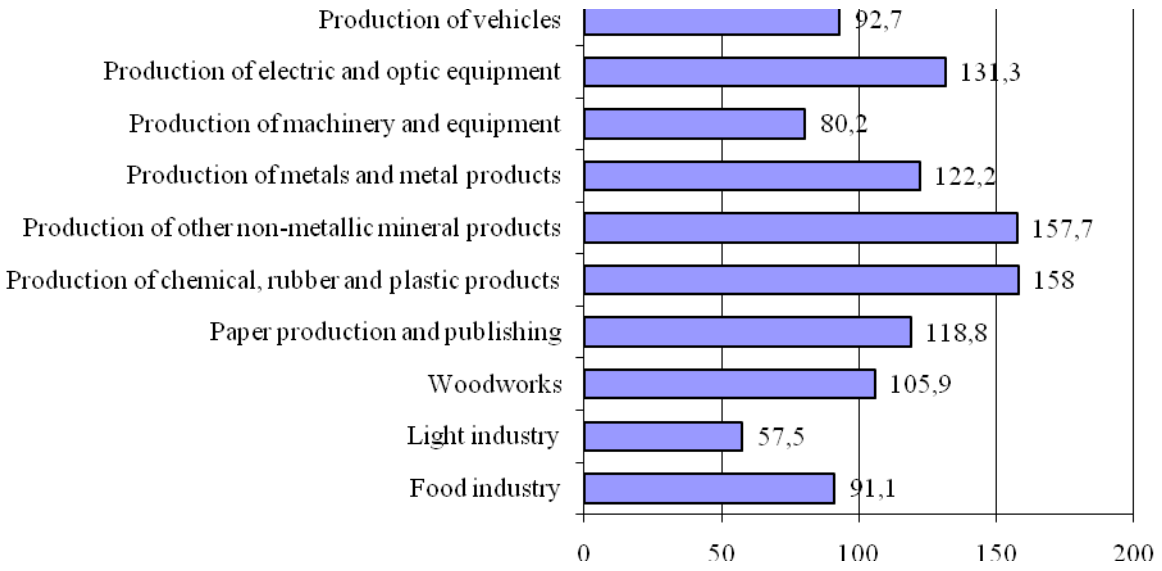
Within the recent three years the producers' prices have considerably increased on average in all branches, and the volume of exported production grew little more rapidly than the production sold in local market.

Production of construction materials (production of other non-metallic mineral products) and the chemical industry have the highest productivity level among aggregated branches, but this level is relatively low in majority of branches of engineering industry. Only the textile industry has lower productivity.

Figure 8

Productivity* level of manufacturing industry branches in 2005

(Average level of manufacturing industry = 100)



* Value added per employee

Low value added branches dominate in Latvia. The proportion of the so-called high technology branches in Latvian manufacturing industry was 5.2% in 2005 (calculated according to the value added in the branches: pharmacy (24.4) (according NACE) and production of electric and optic equipment (30;32;33)).

Proportion of low technologies was 65% (production of food products, beverages and tobacco (15;16); light industry (17,18,19); woodworks (20); paper production and publishing (21;22); production of furniture (36); recycling (37)).

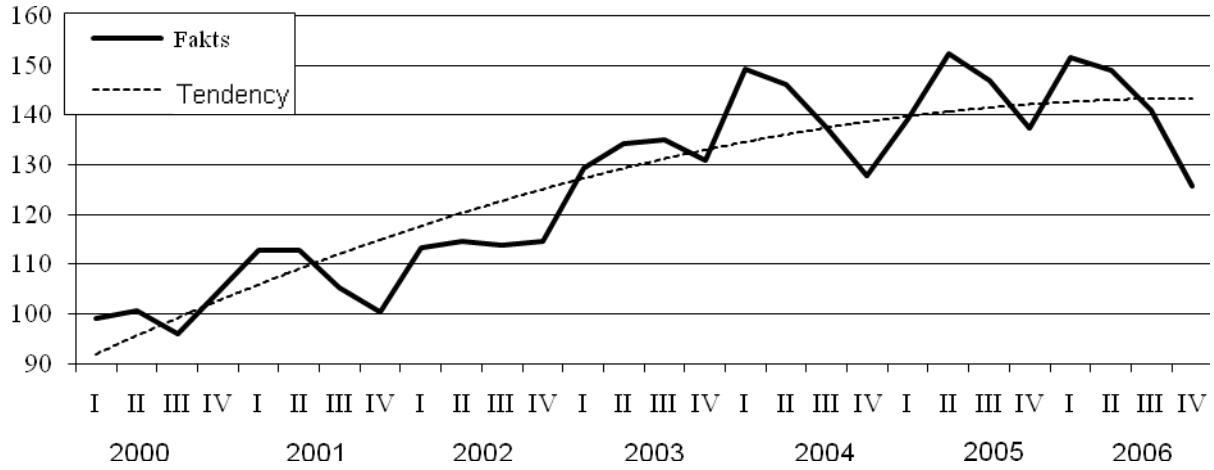
Also, as statistical data show, the branch medium low classification for added value, the "production of their non-metallic mineral products" has one of the highest added values, it is mostly production of construction materials, i.e., the branch more related to internal demand than export.

Woodworks is one of the largest branches of Latvian industry. Its added value forms one fifth of the whole production of manufacturing industry. It is a branch with the most rapid development within the independence years. Production of woodworks has increased approximately 3 times in this period. However its development has slowed down within the recent two years. High proportion of production export is characteristic for the branch. Almost 70% of produced goods are exported.

Figure 9

Development dynamics of woodworks by quarters

(Level of 2000 =100)

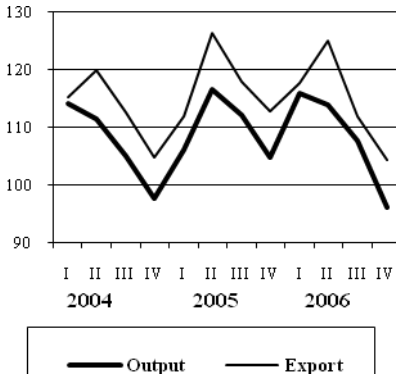


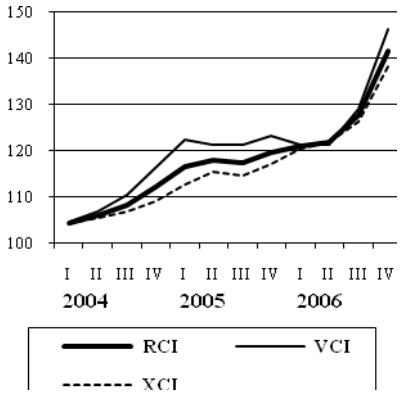
Within the recent two years the branch had almost no development at all, because the demand for production of woodworks reduced in Europe a lot. The production volumes of 2006 minimally exceed the level of 2004. The decrease in export of production of woodworks to EU-15 countries was a bit compensated by its rapid development in export to Estonia and Lithuania, and also to other new member states of EU.

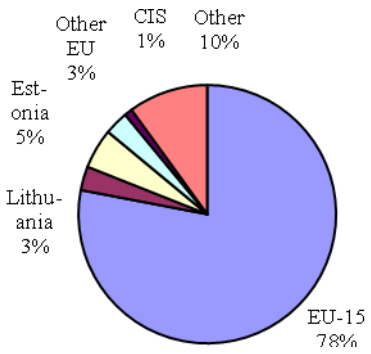
Figure 10

Description of woodworks

Output and export dynamics	Dynamics of producers' prices*	Export structure by groups of states
(IV quarter 2003 = 100)	(IV quarter 2003 = 100)	(2005)







* RCI – indexes of producers' prices, VCI – indexes of producers' prices for the production sold in local market, XCI – indexes of producer' s prices for exported production

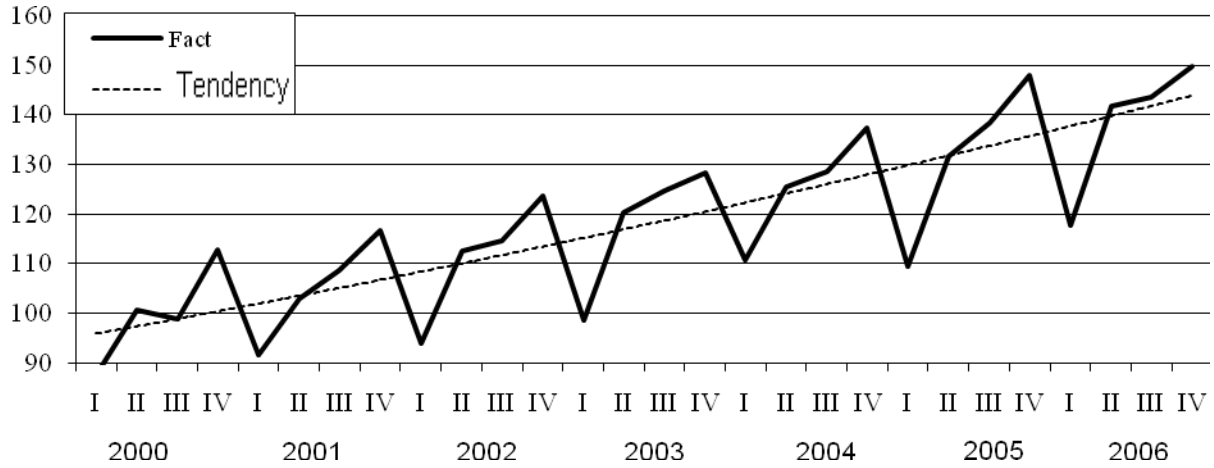
The producers' prices of woodworks increased in 2004 - 2006 more rapidly for production sold due to the increase in internal demand. The prices of production to be imported increased more rapidly in the beginning of 2006, which influenced also the export of production in a favourable manner.

Food industry is the second larger branch of Latvian manufacturing industry, and it forms one fifth of the added value of industry.

Figure 11

Development dynamics of food industry by quarters

(Level 2000 = 100)

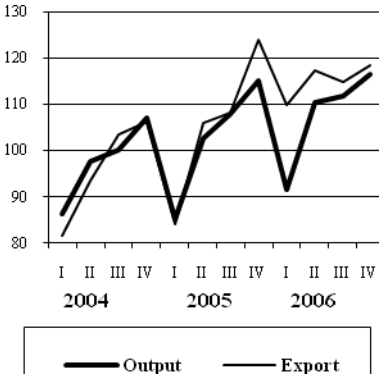


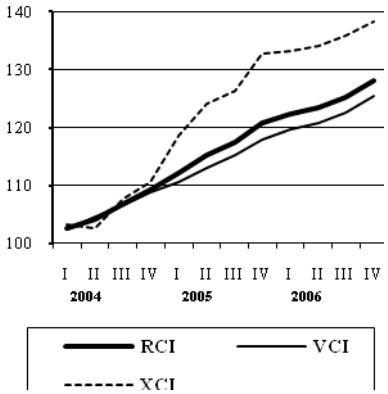
Approximately 75% of the production of the branch is consumed in the local market; the remaining amount is exported mainly to Estonia, Lithuania and Russia. Together with accession to EU the demand for Latvian food products increased in all trade directions - to Russia and other CIS countries, and to EU, the export to EU states increased more than one and a half times, as the demand mostly increased in Estonia and Lithuania. The export of food products to Lithuania and Estonia forms more than half of the export of Latvian food products to EU countries.

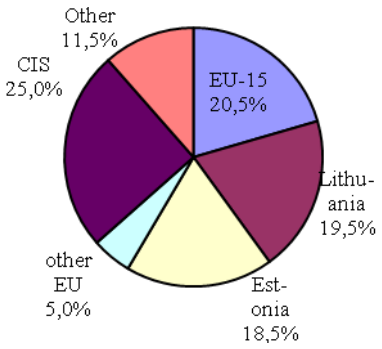
Figure 12

Description of food industry

Output and export dynamics	Dynamics of producers' prices*	Export structure by groups of states
(IV quarter 2003 = 100)	(IV quarter 2003 = 100)	(2005)







* RCI – indexes of producers' prices, VCI – indexes of producers' prices for the production sold in local market, XCI – indexes of producer' s prices for exported production

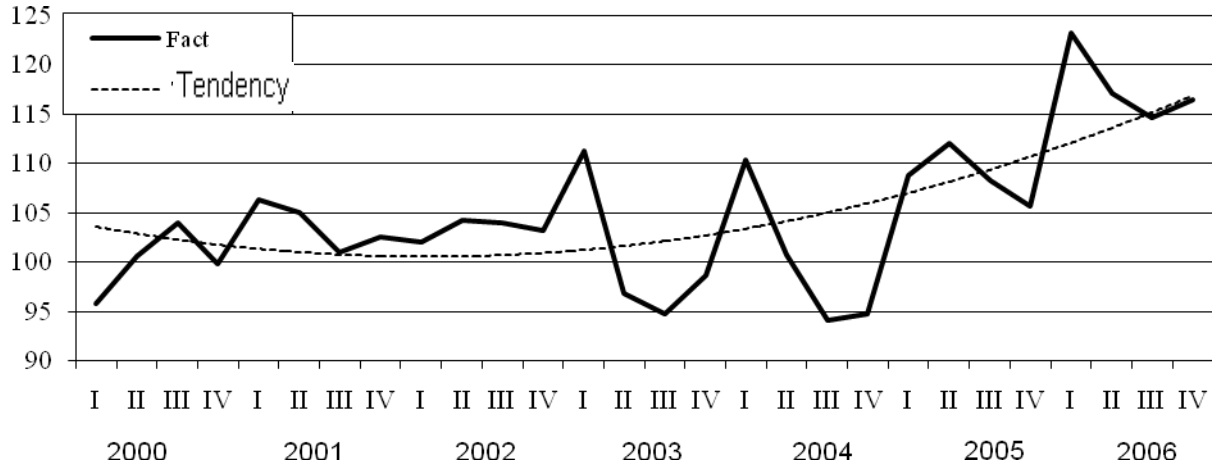
Since 2005 the export prices for food products increased rapidly. Prices in the local market increased with more moderate rates.

Light industry (production of textile and leather products) forms 7.4% of the added value of industry. Only approximately one fifth of produced goods remain in Latvia. Most of production (three fourths of entire export of production) is exported to European Union.

Figure 13

Development dynamics of light industry by quarters

(Level of 2000 = 100)



By 2005 the production volumes and export of *textile industry* did not increase, and the production of readymade clothes even decreased. The increase of production volumes resumed only in 2005, which continued in 2006 more rapidly.

Although the main sales markets of Latvian textile industry are located in EU countries, without regard to the sharp increase in prices in the recent years, Latvian producers have difficulties in expanding their production volumes due to the poor demand in EU states and the high competition in the branch. The decrease in export to EU is partly compensated by its increase to CIS countries.

As already mentioned, growth was observed in 2006. Output volume exceeded the previous level by 8.5% mostly due to the increase in demand in the local market and increase in export to CIS countries, also to Lithuania and Estonia. Export to the old EU member states did not increase in this period.

Figure 14

Description of textile industry and garment industry

Output and export dynamics

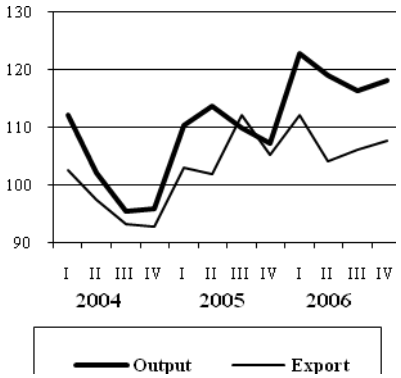
(IV quarter 2003 = 100)

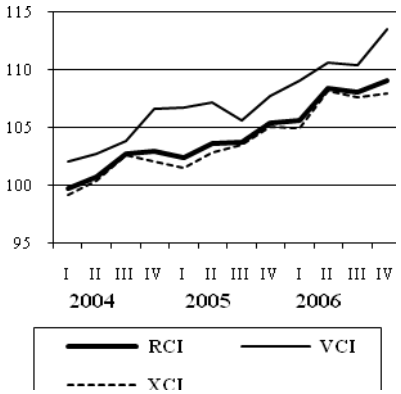
Dynamics of producers' prices*

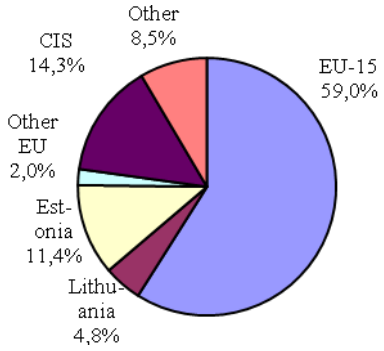
(IV quarter 2003 = 100)

Export structure by groups of states

(2005)







* RCI – indexes of producers' prices, VCI – indexes of producers' prices for the production sold in local market, XCI – indexes of producer' s prices for exported production

Since 2005 ***paper production and publishing*** has a quite rapid development characteristic, mostly in regard to the increase in export and the rapid growth in exporting prices. The main sales markets for export production are located in Lithuania and Estonia; opportunities for expanding to the markets of other EU states are poor.

Figure 15

Development dynamics of paper production and publishing by quarters

(Level of 2000 = 100)

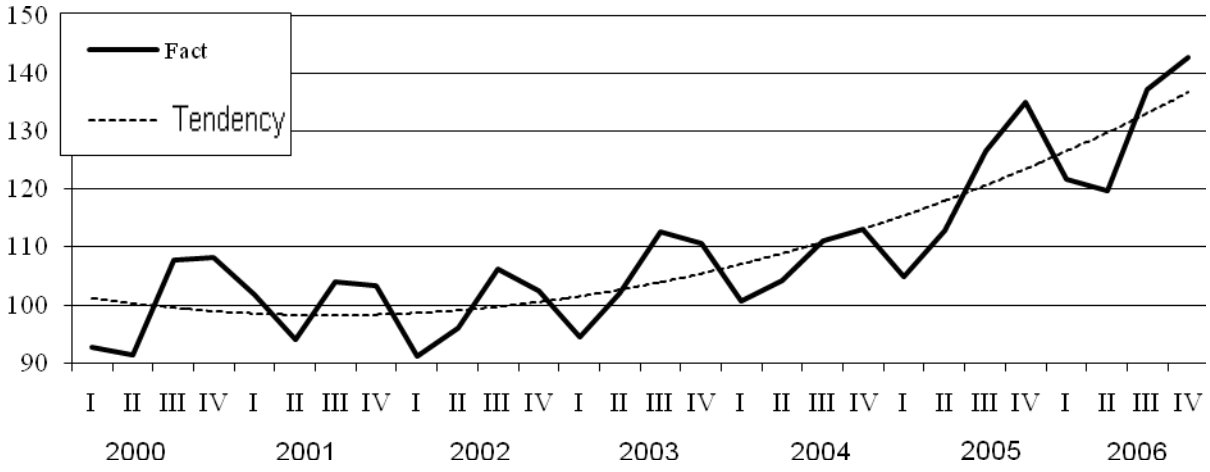
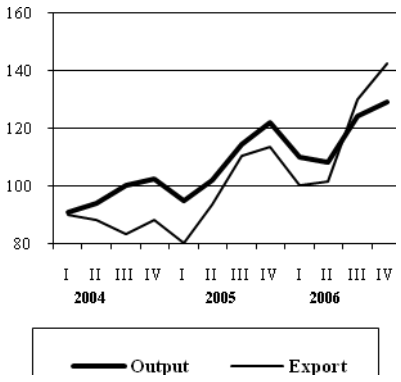


Figure 16

Description of paper production and publishing

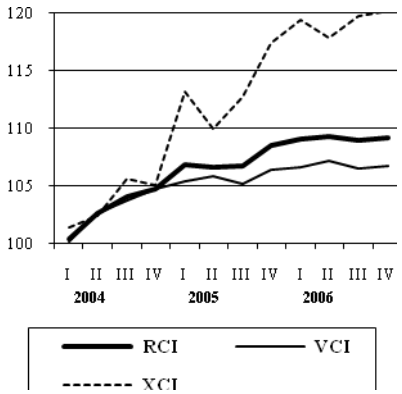
Output and export dynamics

(IV quarter 2003 = 100)



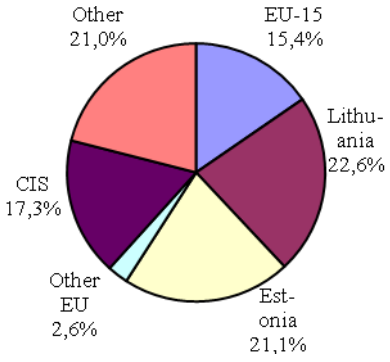
Dynamics of producers' prices*

(IV quarter 2003 = 100)



Export structure by groups of states

(2005)



* RCI – indexes of producers' prices, VCI – indexes of producers' prices for the production sold in local market, XCI – indexes of producer' s prices for exported production

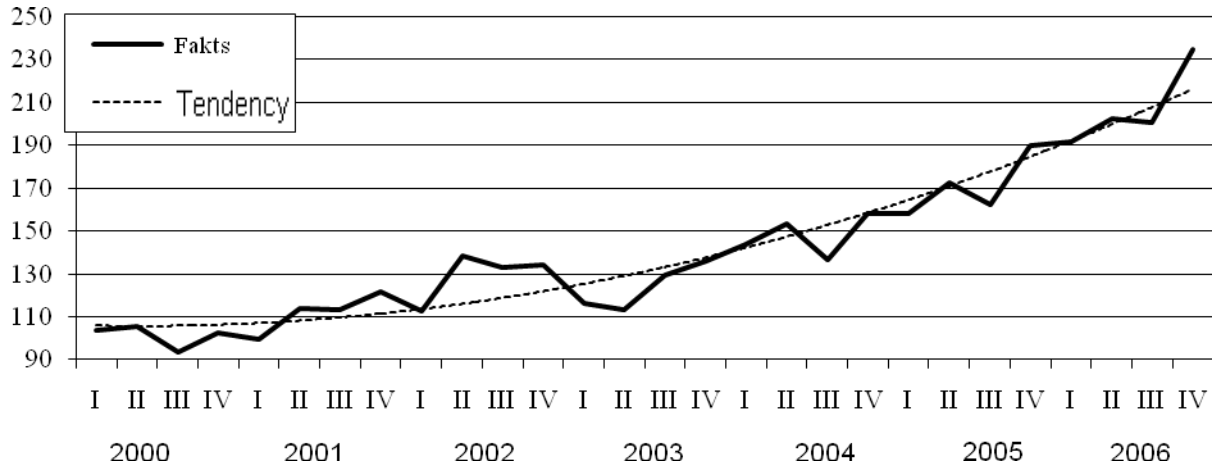
Until 2005 the increase in export prices was largely behind the average increase in prices, because relatively large share of export is related to CIS and other countries outside EU, to whom the trade conditions were worsened by the low exchange rate of USD, which is one of the main transaction currencies in these trade directions. In 2006 the rapid increase in prices continued for export production.

In Latvia ***chemical industry*** has stable traditions, highly qualified specialists, wide range of products has been produced for a long time both for final and intermediate consumption, and the scientific research basis is also good. After 2004 a stable development was observed in the branch. Proportion of chemical industry in the total added value of manufacturing industry forms approximately 8.5%.

Figure 17

Development dynamics of chemical industry by quarters

(Level of 2000 = 100)



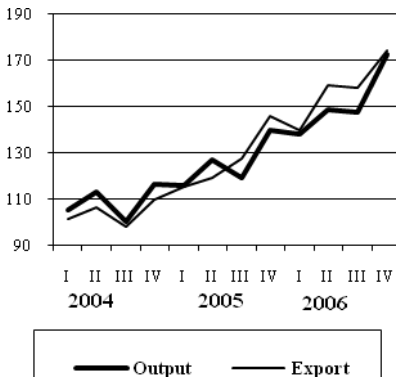
Production of Latvian chemical industry has the traditional sales markets – mostly in CIS countries and in Lithuania and Estonia. Markets in the old EU member states do not increase materially. Approximately two thirds of the industry exports is to Lithuania and Estonia.

Figure 18

Description of chemical, rubber and plastic production industry

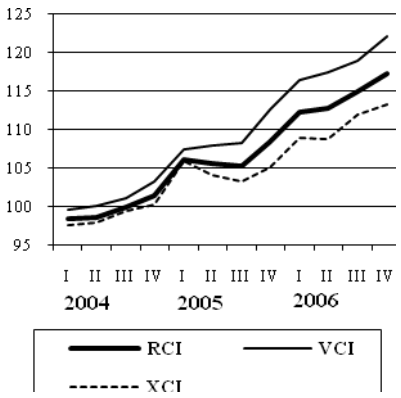
Output and export dynamics

(IV quarter 2003 = 100)



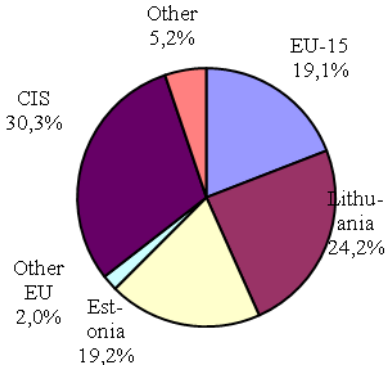
Dynamics of producers' prices*

(IV quarter 2003 = 100)



Export structure by groups of states

(2005)



* RCI – indexes of producers' prices, VCI – indexes of producers' prices for the production sold in local market, XCI – indexes of producer' s prices for exported production

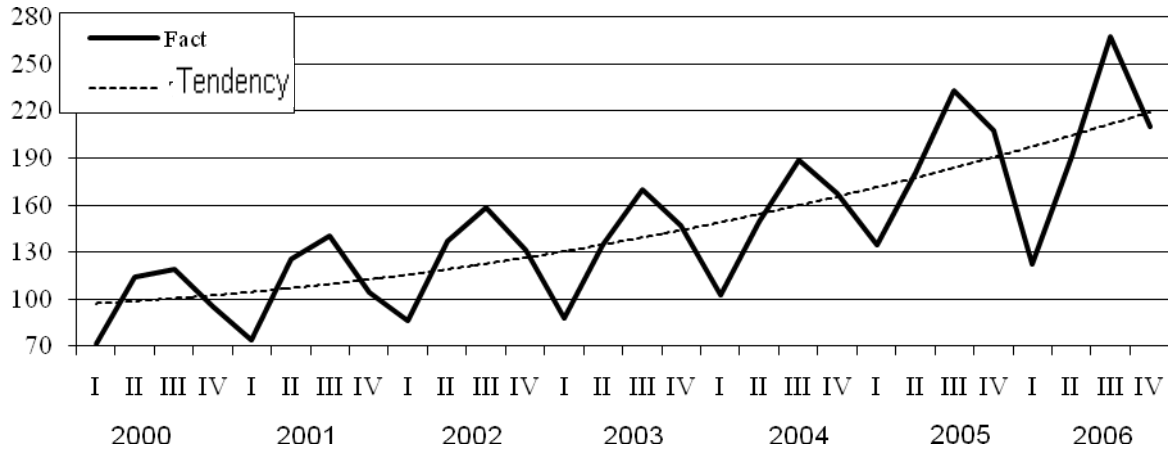
Development of the branch has been consistent in the recent years. The decline periods have also been observed, e.g., in 2003 the production volumes decreased after the considerable increase in 2002, but they increased rapidly again in 2004 – almost by 20%, which was largely ensured by increase in demand in CIS countries. Also the development rate in 2006 was high – 21.4%, which was promoted mainly by expansion of export to CIS countries and increase in demand in the local market.

Development rates of ***other non-metallic mineral production*** (mostly construction materials) are very fluctuating: after the increase in 2002 (15.3%) the growth rate of 5.4 % was relatively moderate in 2003, while in 2004 and 2005 the rates again grew to 12.5 % and 21.4 % respectively, decreasing again in 2006 to 4.7%.

Figure 19

Development dynamics of other non-metallic mineral production by quarters

(Level of 2000 = 100)



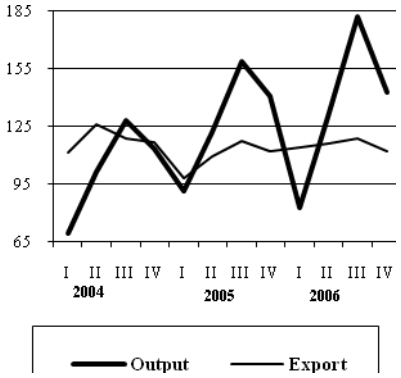
The main development stimulus for the branch is the increase in internal demand. By increase of internal demand the prices are increasing rapidly for production sold in the local market, but basically the prices for exported production did not increase at all.

Figure 20

Description of other non-metallic mineral production

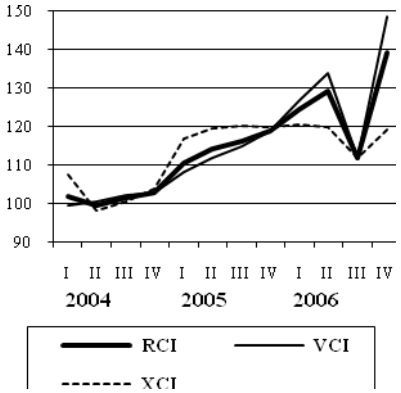
Output and export dynamics

(IV quarter 2003 = 100)



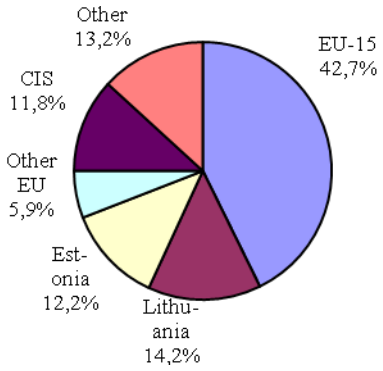
Dynamics of producers' prices*

(IV quarter 2003 = 100)



Export structure by groups of states

(2005)



* RCI – indexes of producers' prices, VCI – indexes of producers' prices for the production sold in local market, XCI – indexes of producer' s prices for exported production

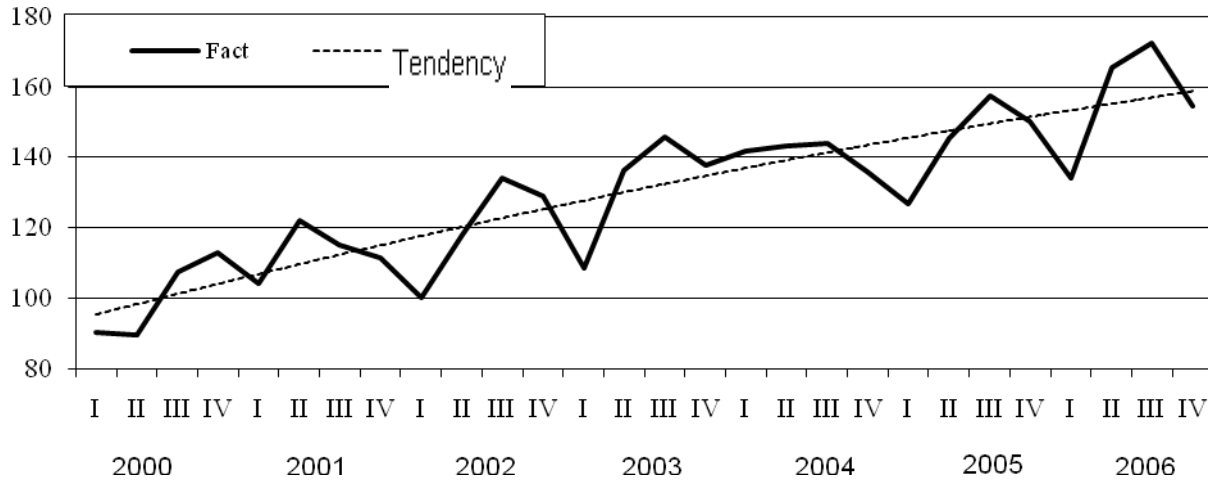
The production volumes of the 1st quarter of 2006 decreased mostly due to the infavourable climatic weather conditions, which reduced the internal demand. However they increased considerably in the second half of 2006.

Metal and metal working branches ensure approximately one tenth of the added value of the industry. The export of sold production of these branches constitutes almost 70%. Lately a trend was observed for increase in the share of local market. By development of construction the demand for readymade metal products is also growing.

Figure 21

Development dynamics of metal and metal working by quarters

(Level of 2000 = 100)



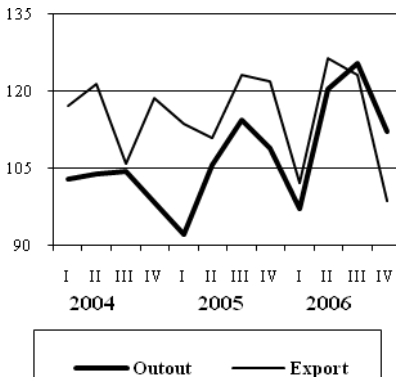
The average development rates of 2002 - 2003 reach almost 7.7%. 2004 was unfavourable for the branch, when the production volumes decreased due to the decline in export, and the development resumed only in the 2nd quarter of 2005. in 2006 the production volumes exceeded the level of previous year by 8.1%.

Figure 22

Description of metal and metal working branch

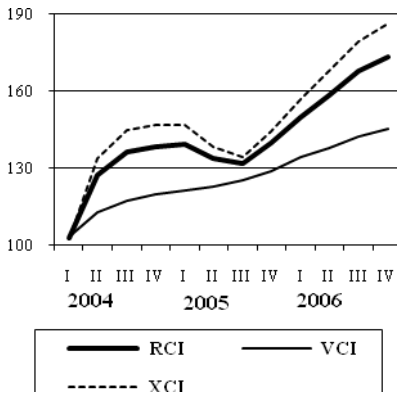
Output and export dynamics

(IV quarter 2003 = 100)



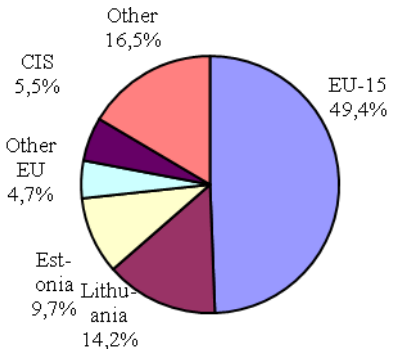
Dynamics of producers' prices*

(IV quarter 2003 = 100)



Export structure by groups of states

(2005)



* RCI – indexes of producers' prices, VCI – indexes of producers' prices for the production sold in local market, XCI – indexes of producer' s prices for exported production

EM_260607_Komercdarb_konkuretsp_un_inovac_veic_pr_2007-2013_EN.doc; Program for Promotion of Business Competitiveness and Innovation 2007 - 2013

The producers' prices of the branch have materially increased for production both sold in internal market and exported production – and also considerably more rapidly.

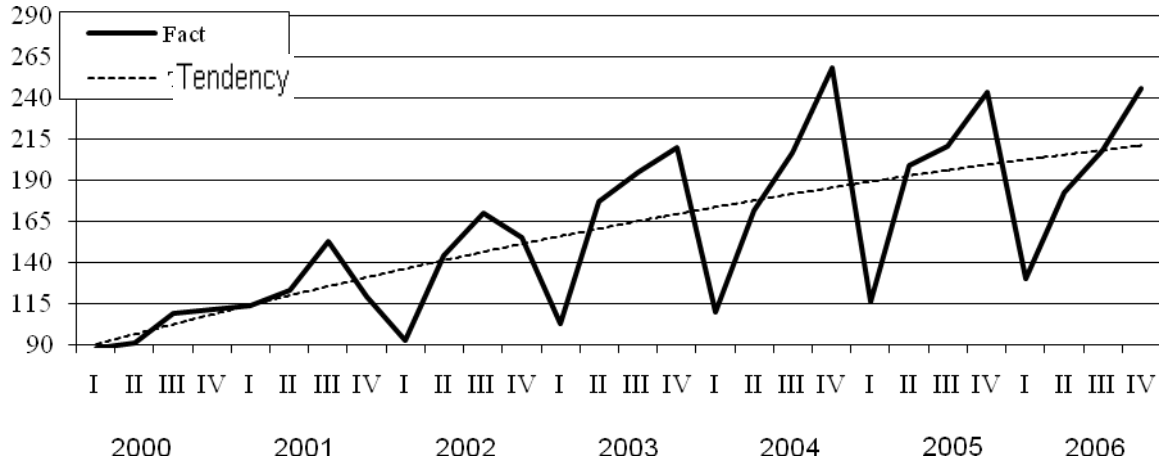
The Latvian metal and metal working production has a high competitiveness in entire world, but the main part of it is related to EU countries (almost 80% of the export), and almost half of the exported production is exported to the old EU member states.

Production of machinery and equipment is a rapidly growing branch, and its production volumes have increased for one and half time within the recent five years. It is a branch expressly directed towards export - almost three fourths of its production are exported.

Figure 23

Development dynamics of machinery and equipment production by quarters

(Level of 2000 = 100)



The development of the branch was particularly rapid in 2001 – 2004, when its annual growth rates exceeded 10%. After accession to EU its development is not so rapid, and output of 2006 was at the level of preceding year.

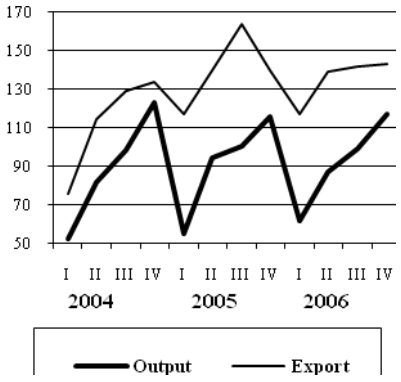
EU countries are the main sales markets of the branch, and almost half of the export is to Lithuania and Estonia. Relatively large share of the export of the branch is related to markets of CIS countries.

Figure 24

Description of machinery and equipment production

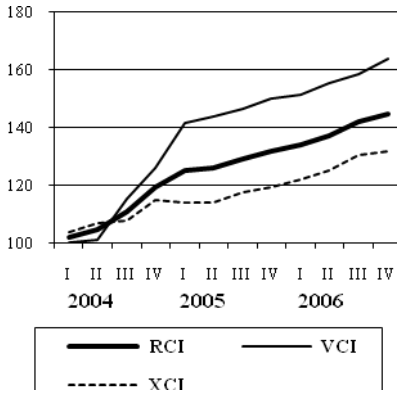
Output and export dynamics

(IV quarter 2003 = 100)



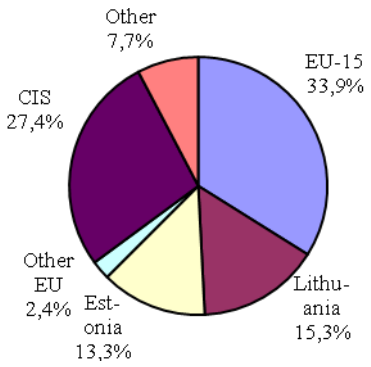
Dynamics of producers' prices*

(IV quarter 2003 = 100)



Export structure by groups of states

(2005)



* RCI – indexes of producers' prices, VCI – indexes of producers' prices for the production sold in local market, XCI – indexes of producer' s prices for exported production

As the domestic demand increases, the prices have also increased for the production sold in the local market within the recent years, but the

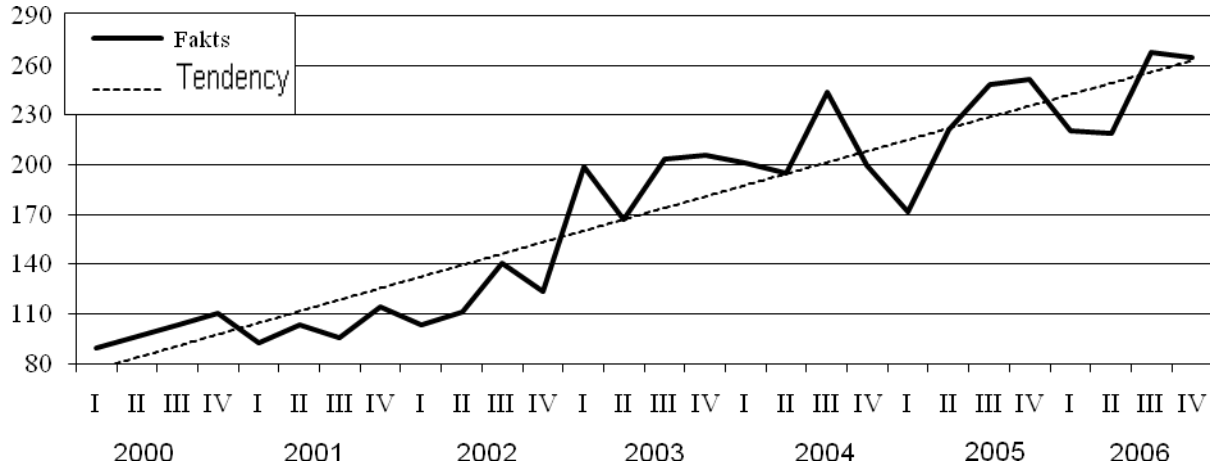
increase for prices of exported production have grown at a more moderate rate.

Production of electric and optic equipment has developed rapidly within the recent years. Production volumes of the branch have almost doubled within the recent five years.

Figure 25

Development dynamics of production of electric and optic equipment by quarters

(Level of 2000 = 100)



After accession to EU the development rates slowed down, but they maintained a stable level (6 – 8%). In 2006 the production volumes of the branch exceeded the level of preceding year by 8.7%.

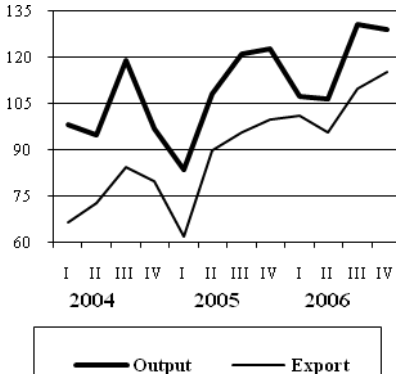
Production of the branch could not attain recognition in the market of developed countries, but it has stable trade partners in CIS countries and in Estonia.

Figure 26

Description of production of electric and optic equipment

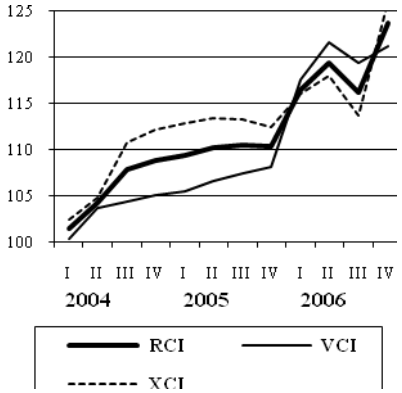
Output and export dynamics

(IV quarter 2003 = 100)



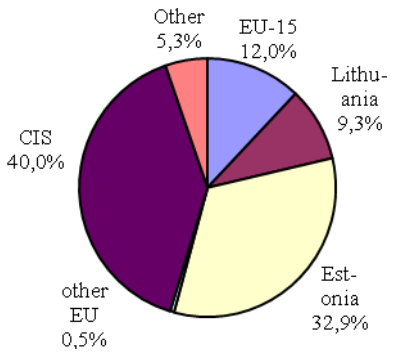
Dynamics of producers' prices*

(IV quarter 2003 = 100)



Export structure by groups of states

(2005)



* RCI – indexes of producers' prices, VCI – indexes of producers' prices for the production sold in local market, XCI – indexes of producer' s prices for exported production

The branch exports approximately two thirds of the production and the local market share increased within the recent years by increasing the producers' prices for the production sold in local market more rapidly.

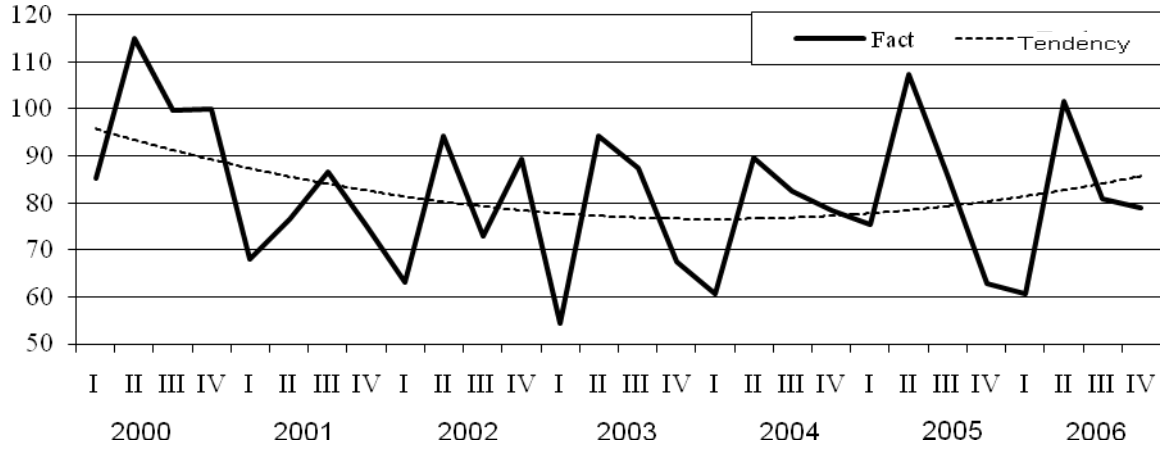
Production of vehicles is the only branch of manufacturing industry unable to increase the production volumes, and, comparing to 2000, they have reduced almost by one fifth. Although since 2004 after decrease in output

they were increased a little, but in 2006 the production volumes were smaller than in 2005 again.

Figure 27

Development dynamics of production of vehicles by quarters

(Level of 2000 = 100)

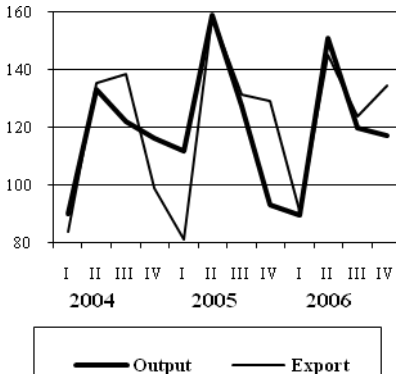


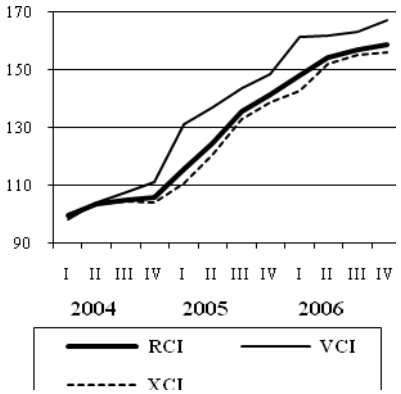
Most of production of the branch is exported. Export markets are divided quite evenly in different sales directions – to EU countries, including Lithuania and Estonia, and also to CIS and other countries of the world.

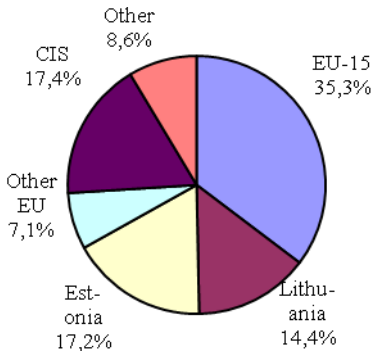
Figure 28

Description of production of vehicles

Output and export dynamics	Dynamics of producers' prices*	Export structure by groups of states
(IV quarter 2003 = 100)	(IV quarter 2003 = 100)	(2005)







* RCI – indexes of producers' prices, VCI – indexes of producers' prices for the production sold in local market, XCI – indexes of producer' s prices for exported production

The share of production sold in local market increases in the sales of production by years, and the prices for production sold in local market increases correspondingly more rapidly.

Conclusions

- The structure of manufacturing industry branches have changed materially. The share of light industry and engineering industry has considerably reduced in the structure, but the proportion of woodworking and production of metal and metal products have increased.
- Branches related to utilization advantages of natural resources and cheap labour force are dominating in the manufacturing industry.
- *Woodworking* is one of the largest industrial branches of Latvia. It had the most rapid development within the independence years. But in the recent two years its development has slowed down due to the poor external demand. The main sales markets for the branch are located in EU-15 countries.
- *Food industry* is a branch directed towards the internal market. Its proportion has not changed materially in the manufacturing industry, although the production volumes have reduced comparing to 1990. Lithuania, Estonia and CIS countries are the main export partners. The branch has developed a bit more slowly than the average of industry within the recent five years.

- Proportion of production of *light industry* has decreased considerably in the total output of Latvian industry since 1990. After decrease in production volumes, which continued for several years, the development was observed for the branch in 2005 and 2006. EU-15 countries are the main sales markets for Latvian textile industry, but within the recent two years the development was based on increase in demand in the local market and increase in export to CIS countries, to Lithuania and Estonia. Export to the old EU member states did not increase in this period.
- The production volumes of the branch *paper production and publishing* have increased comparing to 1990. Since 2005 a relatively rapid development was observed mainly due to increase in export and the rapid increase in export prices. Lithuania and Estonia are the main sales markets for export production; options for the markets to expand to the markets of other EU countries are valued as poor.
- Production volumes of *chemical industry and related industries* products have decreased comparing to 1990. Stable development was observed in the branch after 2004. Production of Latvian chemical industry has the traditional sales markets – mostly in CIS countries and Lithuania and Estonia. Markets of the old EU member states do not increase much. The branch has poor competitiveness in the markets of developed countries. Approximately two thirds of the exported products to EU countries are exported to Lithuania and Estonia.
- Production volumes of production of *other non-metallic minerals* (mainly construction materials) have decreased comparing to 1990, but the development after 2000 has been considerable. The increase in the internal demand is the main stimulus for development of the branch. As the internal demand increases, the prices for production sold in local market increased rapidly, but prices for exported production basically did not increase.
- Output volumes of production of *metals and metal products* have generally increased. The production of Latvian metals and metal working has high competitiveness in entire world, but the main part is related to EU states and almost half of exported production is exported to the old EU member states.
- Volumes of *Machinery and equipment production* have materially decreased comparing to 1990. Development of the branch resumed since 2000, and it was particularly rapid in period of 2001 - 2004. After accessioning to EU its development is not so rapid anymore and output of 2006 is almost on the level of preceding year. EU countries are the main sales markets of the branch, and almost half of the export to EU is to Lithuania and Estonia. Comparatively large share of branch export is related to markets of CIS countries.
- Production of *electric and optic equipment* has developed rapidly within the recent years. Production volumes of the branch have almost doubled within

the recent five years, but its production volumes are still behind the level of 1990. Production of the branch could not attain recognition in the market of developed countries, but it has stable trade partners in CIS countries and in Estonia.

- *Production of vehicles* is the only manufacturing industry branch unable to increase production volumes since 2000. Most of production of the branch is being exported. Export markets are divided quite evenly by different sales directions – both to EU countries, including Lithuania and Estonia, and CIS and other countries of the world.

Minister of Economics J.Strods

04.10.2010 11:50
3922
Fogele
Tel.: 7013111
E-mail: Agnese.Fogele@em.gov.lv

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Program for Promotion of Business Competitiveness and Innovation 2007 - 2013
Summary

1. Essence of the issue to be solved

The economical reforms implemented in Latvia and accession of the country to European Union has ensured the internal and external basic provisions for the further development of national economy and the increase in the welfare of the society.

Due to the rapid economical development Latvian economy has currently exceeded the gross domestic product, which the country had before commencement of economical reforms. But Latvian economic and social development level is still among the lowest ones in European Union. The economic development in Latvia has revealed several serious macro-economical and social problems. Solving these problems requires structural changes in Latvian economy.

To ensure stable development for Latvian economy and constant growth for its competitiveness, the preconditions have to be established for transition from economical model, which is based on utilization of low-qualified labour and production of products with low added value, to the innovative (knowledge-based) development model.

For achieving better coordination for Latvian economical policy, and for provision of its stable development and constant increase in its competitiveness, the previously implemented national policy is planned to be continued according to the National Innovation Program 2003 – 2006, Development Program for Latvian Small and Medium Businesses 2004 – 2006, and the Basic formulations for Development of Latvian Industry uniting them into Program for Promotion of Business Competitiveness and Innovation 2007 – 2013 (hereinafter – the program).

Main goals of the program are as follows:

- Provision of favourable conditions for development of business in Latvia to increase the competitiveness of businesses, particularly the small and medium business, and establishment and development of new businesses;
- Promotion for increase in capacity and efficacy of national innovation system by creation of favourable regulating, financial and informative environment for innovative activities;
- Achievement of material increase in competitiveness and productivity of the industry, promotion of increase in production volumes of high added value products and in the proportion of high technology products in the structure of production and export, expansion of utilization of innovative technologies and progressive management methods in all industrial branches.

Within the implementation period of the program its successful coordination is possible with events included into Latvian National Development Plan and the utilization opportunities of the structural funds provided by European Union Financial Prospect 2007 – 2013. During the initial

period of program implementation it will be possible to coordinate with the events for increase in total competitiveness of European Union according to Lisbon strategy.

2. Proposed solution

The program defines certain events for improvement of business environment, promotion of availability of funds, development of new business initiatives and increase in their competitiveness, creation of understanding of the society on the role of innovations in the increase of competitiveness, promotion of industrial, educational and scientific institutions , transfer of knowledge from scientific institutions to the production sector and their commercialisation, and the development of industrial branches and increase in productivity.

The development of related fields will also promote the implementation of the program, e.g., development of human capital, development of energy market, improvement of transport infrastructure, and development of market infrastructure and e-commerce.

3. Additionally required funding for implementation of the program and provided sources of funding

The Events reflected in the plan of program implementation events are funded in 2007 according to the budget of Ministry of Economics and other involved ministries. But the plan of events for the period of time 2008 - 2013 includes programs co-funded by European Union structural funds, the events provided in the budgets of Ministry of Economics and involved ministries, and the additionally required budget. The plan of events does not include events contained in the plans of implementing events of other programs. The additionally required funding for implementation of events of the program will be requested by drawing up the request for the national budget of current year.
Ministry of Economics performs the program implementation management, supervision and evaluation. The respective executive institution is responsible for implementation of a certain event and evaluation of its efficacy.

Minister of Economics J.Strods